

XENTIS Fee Module – Definitions, Processing and Retracing

From fixed amounts to performance-based fees with hurdle rate and high-water mark (HWM) – the XENTIS fee module provides users with optimum support in fee model administration by means of predefined functional components and configurable business rules.

ABSTRACT

The fee module, combines individual partial calculations with almost any kind of algorithm. Furthermore, the fee module offers comprehensive calculation methods, interrelated/interdependent sub models, a simulation mode for model testing and detailed calculation reproduction. The fee module comprises a basic module and a performance fee module. The basic module displays fixed and variable amount models and enables calculations depending on the investment structure. The performance fee module complements the basic functionality with performance-based fee models.

Fee Structure	Model Type	Status	Start	Sign	Rate	Validity Rate	Calculation Method	Fee	Distribution	Accrual
Advisory fee (demo)	Individual	Started	1. Jan 2019	✓						
% Assets (Scale number of securities)	Individual			✓	+	Scale	Yearly (annually): Fixed scaled asset percent / Average asset	Monthly	According to asset	from beginning / Daily
% Assets (Scale by quote registered securities)	Individual			✓	+	Scale	Yearly (annually): Fixed scaled asset percent / Average asset	Monthly	According to asset	from beginning / Daily
Difference to minimum	Individual			✓	+	1300.00 Swiss Franc	Monthly	Fixed amount	According to asset	from beginning / Daily
Difference to maximum	Individual			✓	+	8300.00 Swiss Franc	Monthly	Fixed amount	According to asset	from beginning / Daily
Audit fee (demo)	Individual	Started	1. Jan 2019	✓						
Fixed Amount	Individual			✓	+	10300.00 Swiss Franc	Yearly (annually): Fixed amount	Monthly	Percent specification	from beginning / Daily
Custodian bank fee (demo)	Individual	Started	1. Jan 2019	✓						
% fee, monthly, with accrual	Individual			✓	+	0.10 %	Yearly (annually): Fixed asset percent / Average asset	Monthly	According to asset	from beginning / Daily
Fixed amount, monthly, with accrual	Individual			✓	+	12300.00 Swiss Franc	Yearly (annually): Fixed amount	Monthly	According to asset	from beginning / Daily
Minimum surcharge annual without accrual	Individual			✓	+	30300.00 Swiss Franc	Yearly (annually): Fixed amount	Yearly (annually)	According to asset	No accrual
5% fund units	Individual			✓		Scale	Quota scale	Monthly		
Management fee (demo)	Individual	Started	1. Jan 2019	✓						
% Fixed scale, @ Assets, daily, bank working days	Individual			✓	+	Scale	Yearly (annually): Fixed scaled asset percent / Average asset	Quarterly (every 3 months)	Percent specification	from beginning / Daily
Difference to minimum	Individual			✓	+	10000.00 Swiss Franc	Yearly (annually): Fixed amount	Quarterly (every 3 months)	Percent specification	from beginning / Daily
Publication fee (demo)	Global	Started	1. Jan 2019	✓						
Fixed Amount	Global			✓	+	12300.00 Swiss Franc	Yearly (annually): Fixed amount	Per semester (every 6 months)	Consistent	from beginning / Daily

Abb. 1: Overview of defined fee models in the mandate master data

FEE MODEL ADMINISTRATION

Fee models for an arbitrary number of fee categories such as administrative fees, custodian bank fees, custody account fees, advisory fees, audit fees, publication costs etc. are either defined as individual or global models. Depending on the object, individual models are entered on the mandate, portfolio, fund, segment, tranche, tranche main fund, whereas global models are created independent of the object and subsequently allocated to an administrative level. So-called model templates can be created when entering default settings. Model templates are likewise administered independent of the object and are available as a capturing assistance for the creation of specific fee models. Fee models defined and/or allocated for a

mandate or partial mandate are presented in a tree structure overview. This display enables a drill down right to the finest details of an individual fee model (**fig. 1**).

STRUCTURING

Fee arrangements, particularly for special funds, are often formulated as interrelated and combined partial calculations pertaining to numerous administrative levels and sub funds. Contractually related regulations which are calculated and charged as a unit are depicted in one single fee model. In a XENTIS fee model, the contractual agreement is displayed using a fee header and an unlimited number of fee positions and structural elements. Each individual fee position defines a partial calculation in the form of an invoice line item and can, where required, be provided with individual calculation-, accrual- and charging rules. Fee positions and dependencies are grouped and defined respectively by the structural elements sub model and case distinction (**fig. 2**).

Due to the flexibility of this setup the following regulations, for example, can be implemented in a single fee model:

- Combined fund/portfolio-related calculations
- Differing fee rates on different sub funds
- Utilisation of case-dependent sub models
- Numerous minimum or maximum rates for different partial calculations
- Combinations of calculations with varying settlement and accrual periodicity
- Individual calculation basis for graduations, fee calculation and debit distribution

ENTERING AND SIMULATION OF MODELS

There are three methods of creating a new model:

- Copying an existing model
- Creation of a new model by selecting a suitable model template
- New definition without using the copy or template function

Settings applicable to the entire model can be determined via the fields in the fee header:

- Fee period differing from payment period
- Accrual processing management
- Period end closing process management
- Defaults (that can be individually adjusted for each fee position) for the handling of company-owned target funds or the valuation of the assessment, calculation and distribution basis are also defined in the fee header. Differing rules regarding accrual or last reference date of the period can be applied for the definition of the relevant calculation days and calculation basis

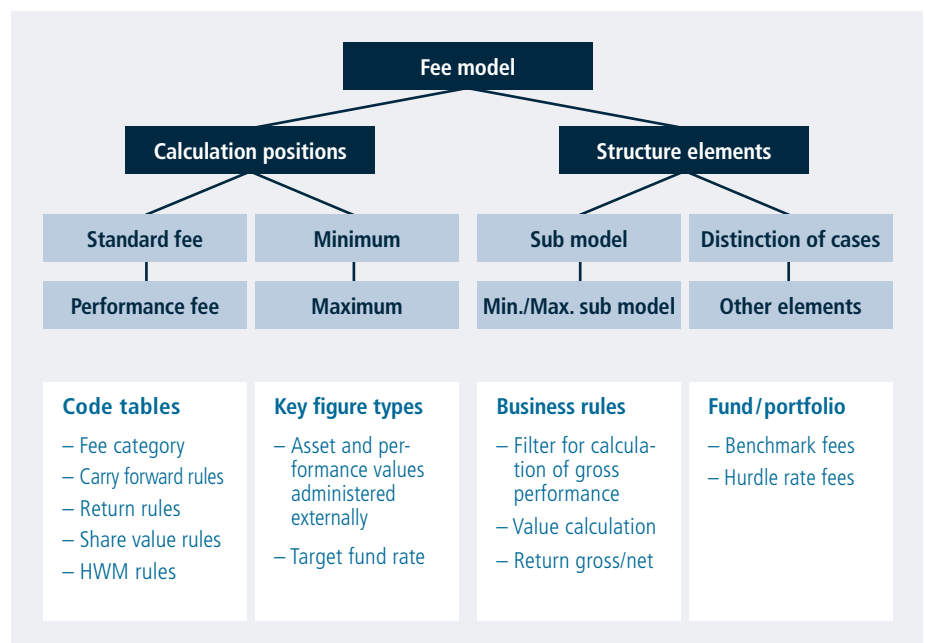


Abb. 2: Structure of fee model

- Entering of individual fee positions and structural elements takes place according to a modular system, in which the individual components are first selected and then placed or compiled in a tree structure. Incomplete and/or incompatible settings are reported and prevent activation of the model. The impact of the selected settings can be checked immediately after being saved in the simulation mode where detailed calculation results and resulting transactions are displayed

PERFORMANCE FEES

- The calculation of performance-based fees is mainly managed using the calculation method of the fee position, configuration of the fee-related performance key figure and formulation of constraints
- Specific characteristics of the relevant performance key figure and the application of constraints are defined by predefined calculation components. For the performance key figure, these are:
 - Performance of fund/portfolio
 - Outperformance of fund/portfolio against the benchmark
 - Outperformance of fund/portfolio against the hurdle rate
 - Performance of fund/portfolio in regards to the HWM
 - Outperformance of fund/portfolio in regards to the HWM against the benchmark
 - Outperformance of fund/portfolio in regards to the HWM against the hurdle rate
- Calculation components for the constraints are, amongst others:
 - Fund comparison value using HWM
 - Performance of fund higher than 0 (with or without losses carried forward)
 - Outperformance of fund – benchmark higher than 0 (with or without losses carried forward)
 - Performance of fund in regards to HWM higher than hurdle rate

Additional configuration settings, to allow for the fact that performance fee calculations are rarely standardised, include:

- Calculation of fund/portfolio performance net or gross
- Calculation of performance or outperformance with or without consideration for losses carried forward from previous periods; losses carried forward can be maintained monetarily as an amount or as a percentage (performance measure), with cumulated or rolling and time-limited off-setting
- Management of benchmarks as indices with or without spread, also as customised indices with configurable adjustment interval
- Definition of hurdle rate as fixed % rate or, in a similar fashion to a benchmark, as indices with or without spread
- HWM regulations, such as the application of HWM with continuous observation or with rolling and thus limited validity in terms of time, or HWM tracking with refresh rules
- Calculation of outperformance according to additive (arithmetic) or multiplicative (geometric) methods, likewise for calculation of performance, incl. balance brought forward performance
- In principle, all relevant reference values are determined resp. calculated by XENTIS. The fee model setup, however, offers the flexibility of incorporating externally determined values into the calculations.

CALCULATION METHODS

The calculation method constitutes the central element of a fee position. In terms of the entering of fees, it manages the configuration possibilities and, consequently, user guidance. In terms of processing, it controls the calculation of a partial amount of a fee model. The calculation possibilities listed below have an almost unlimited number of combination permutations (within a model) using multiple fee positions:

- Fixed amount, amount defined by an asset scale, amount per position, amount adjusted with an asset ratio
- Fixed % rate or defined by an asset scale on the total assets, a sub fund or value of an externally administered position
- % rate as participation in the compensation-based performance based on a period observation, i.e. calculation with period performance and average invested capital
- % rate as participation in the compensation-based performance based on a daily observation, i.e. daily calculation of performance with the respective original assets

CASE DISTINCTION

With case distinction, partial calculations whose execution is determined by defined criteria can be administered exclusively within a fee model. For instance, a sub model A with varying rates for shares and bonds or a sub model B with one flat rate for total assets and a minimum definition should be valid, depending on the level of the average share quota. Case distinctions can be formulated using criteria like, asset quota, position quota, asset value, number of positions.

RETRACING OF CALCULATIONS

The details of a fee calculation can be reproduced directly via the user interface and, where requested, saved as a file or provided as a report. Information available includes the relevant model definitions, the basis data of the individual reference dates, the calculation of the partial amounts according to the individual fee positions and the postings created.

CONCLUSION

The fee module provides an efficient tool to accommodate the steady increase of complex remuneration models and has thus significantly enhanced the functional scope of XENTIS. System structures are called for that combine complexity and flexibility with user-friendliness and scope for any potential future developments. The modular setup has been specifically designed to display known requirements such as the German Federal Financial Supervisory Authority (BaFin) model regulations for the calculation of performance fees as well as fee models with program adjustments that are less standardised or highly individual.

When compared to the use of a third party application, the fully integrated fee module has the distinct advantage of direct access to the XENTIS data universe. Interface breaks and redundant data management are therefore avoided. The result is integrated processing without delay: from daily accrual via periodical calculation and posting through to final payment matching.

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