

# AZTEC GROUP

## CASE STUDY: THE TRUE COST OF TREASURY SERVICES

The Aztec Group recently concluded a year-long investigation into the true costs of tied and retrocession based treasury services in the private equity industry. The results are startling and demonstrate that LPs could currently be paying anything from hundreds of thousands to millions in excessive charges over the life of a mid-sized private equity fund.

These costs are a direct result of uncompetitive banking fees and commissions which can create a significant, and in many cases, unnecessary drag on a fund's performance.

### Methodology

By adopting various assumptions as to the size, life and investment and divestment strategy of a 'typical' private equity fund and extrapolating this against historical 'live' pricing data, the Aztec Group was able to model the impact of bank pricing and retrocession models common in the market place.

### Findings

Highlighting costs over the life of a 'typical' fund of between EUR1 and EUR4 million, the Aztec Group's findings were stark. Not only did the investigation demonstrate the true extent of the costs currently faced by LPs but in some cases noted that costs appear undisclosed and, in many cases, avoidable.

The Aztec Group's findings identified potential savings arising at all levels in a fund's operations; from simple every day banking transaction charges through to margins on foreign exchange transactions.

The study went on to show that these fees are often at their most significant in the case of tied banking services, where a single bank, often doubling as the fund's administrator, has a monopoly over the fund's banking services and therefore escapes the competition of multiple banking providers.

The second instance the report highlighted as being responsible for fee 'leakage' occurs in the case of retrocession payments between the fund's bank(s) and its administrators. Typically these retrocession arrangements involve the administrator being paid a 'commission' on the volume of business transacted with a bank.

Each of the practices, the study highlighted, has the effect of stifling competition among bank and service providers. Of equal concern, the report concluded that many of these fees and arrangements are simply not being disclosed in an open and transparent manner to the fund's GPs.

### Assumptions

- Fund committed capital of EUR250m.
- 200 foreign exchange transactions of varying sizes executed over a 10 year period.
- 90% of the Fund will be spent on investments in 20 payments of between EUR2m and EUR20m (EUR225m total).
- 50% of investments involve foreign exchange payments.
- 3 times money on divestments in 8-10 realisations of between EUR10m and EUR100m (EUR450m total).
- 50% of divestments involve foreign exchange payments.
- Banking costs relating to the every-day running costs of the Fund and other minor profit and loss numbers were ignored.

### Conclusions

The investigation once again highlights the importance of separation of banking and administrative services and the necessity for clearly communicated transparent fee structures. It also highlights the measurable 'value add' an administrator is able to bring provided it has a suitably qualified, experienced and independent treasury function. We urge LPs to ask the question, "How are my treasury fees being managed and are they competitive?".

### Dare to test the theory?

If you would like to discover more about the Aztec Group approach to treasury services or want to "test the theory" then why not contact James Duffield on 0845 50 55 620. We are happy to give you a market price comparison to see if your treasury services are costing more than they need to.

CONTACT James Duffield  
TELEPHONE +44 (0) 845 50 55 620  
MOBILE +44 (0) 7584 232165  
FACSIMILE +44 (0) 845 50 55 610  
EMAIL james.duffield@aztecgroupp.co.uk

CONTACT Edward Moore  
TELEPHONE +44 (0) 1534 833027  
FACSIMILE +44 (0) 1534 833033  
EMAIL edward.moore@aztecgroupp.co.uk

