

Modification of DBA Investment Advisers Member Discount/MDA Royalty apportionment

Background: In 2016 when the MDA endorsed DBA Investment Advisers, the MDA IFG Board recommended a tiered system of fees for assets under management. Please see the attached PDF of an email that outlines the history and the current implementation challenge.

At its Sept. 17, 2021 meeting, the MDA IFG Committee on Endorsed Services met with Ted Schumann II and discussed the revised discount/royalty apportionment proposal, which benefits all parties to the detriment of none, and passed the following resolution:

“Resolved, that the MDA IFG Committee on Endorsed Services recommends the MDA IFG Board of Directors approve the DBS Investment Advisors fee structure modification as follows,

Annual Fee for MDA Member Clients: The lesser of DBS fee (normal or negotiated) or 0.90% of assets under management; and

The royalty to the Association be 12% of fees received by DBS IA with a \$6,000 quarterly minimum for any quarter where AUM from member-clients under endorsement totals at least \$22 million; and

That there be no change to the existing Annual minimum royalty to cover pre-endorsement clients of \$5,000; and

That the Service Agreement be modified to reflect this update effective Jan. 1, 2022.”

Requested action: In concert with DBS Investment Advisers, MDA IFG management requests that the MDA IFG Board accept the proposed member fee/royalty apportionment proposal. All details on the proposal follow. A proposed resolution is offered on the last page of this attachment.

Ted Schumann II will be on hand to present this proposal at the Dec. 15 meeting.

From: [Ted Schumann II](#)
To: [Cindy Hoogasian](#); [Craig Start](#)
Cc: [Regan Duperon](#)
Subject: DBS IA Discount & Royalty Proposal
Date: Monday, August 30, 2021 8:22:15 PM
Attachments: [DBS IA Royalties Chart.pdf](#)

Hi Cindy & Craig,

I'd like to take this opportunity to follow up with a proposed modification to the current discount and royalty formula provided by DBS IA as the MDA's endorsed provider for wealth management services to members. As you may recall, when we submitted the original proposal for endorsement, we proposed that 25% of the gross fee could be allocated between royalty and member discount at the association's discretion. At that time, it was determined that for smaller clients, a greater portion of the 25% in question would be received as royalty, whereas larger clients would take a greater portion of the 25% in the form of lower fees.

Over the years, having these 2 different formulas has been laborious from a tracking and calculation standpoint. Worse than that, the complexity of the calculation creates opportunities for errors, making it unscalable as we bring in more and more members as clients every year. It's also next to impossible to succinctly communicate to member-clients the value of working with us as endorsed provider. In other words, I'm worried the MDA isn't getting the credit it deserves for negotiating the discount on behalf of its members.

It's obvious that it would be best for both of us (DBS IA and MDA/MDA-IFG) to simplify. To that end, I propose the discount and royalty arrangement be revised to the following:

- **Annual Fee for MDA Member Clients:** The lesser of DBS fee (normal or negotiated) or 0.90% of AUM.
 - The highest annual fee charged under the current endorsed arrangement is 1.09% of AUM
 - Member-clients currently being charged less than 0.90% of AUM would stay at their lower rate
 - No member's fee would be increased as a result of this revision!
- **Royalty to the Association:** 12% of fees received by DBS IA
 - \$6,000 quarterly minimum for any quarter where AUM from member-clients under endorsement totals at least \$22,000,000
 - This represents a similar royalty amount to that which would be received if no changes were made to the existing calculation.
- **Annual minimum to cover pre-endorsement clients:** \$5,000 (no change).

The approach outlined above originally came to me after a prior meeting where we were discussing the viability of MEPs (multi-employer plans). As you recall, the basic

theme of a MEP is to aggregate a group of similar clients for scalability in working with service providers for reduced fees. To that end, it should be noted that **a fee of 0.90% of AUM would be the same fee that non-MDA client with a portfolio of \$3,500,000 would qualify for.** That's a tremendous value for any clients with a portfolio less than \$3,500,000! Better still, clients over the \$3,500,000 get to keep the preferred rate from the original iteration of the formula *and* MDA/MDA-IFG still receives the 12% royalty on those larger balances!

I have attached a PDF showing a projection of what MDA/MDA-IFG would receive this year under the existing formula vs. what would be received under the new proposal, as well as how it would look with a 10% market rally, or 10% market downturn.

Having my firm endorsed by MDA, is one of the proudest accomplishments of my career. In addition to being a point of pride, from a business standpoint it is well worth the money. My objective in revising the royalty arrangement isn't to cut expenses. Instead, I took great care and creativity to keep the royalty dollars similar, but simplify the model. My hope is that in doing so, I can keep this arrangement mutually beneficial and continue to grow it for the good of all involved.

I appreciate both of you acting as a sounding board, and hope what I have proposed makes sense to everyone. I'm hoping we can roll out the new formula to be effective for Q1 2022 (fees charged and royalties paid on 12/31/2021 account balances, but paid in early 2022).

If you have any questions, please feel free to call or email me. I hope you both had a wonderful weekend and a productive Monday!

Best,

Ted Schumann, II, MBA, MSF, CFP[®], AIF[®]

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CURRENT DBSIA MEMBER DISCOUNT/ROYALTY SCHEDULE

		Standard DBS Rates Per ADV	MDA Member Rates (25% of fees to be allocated between member discount and royalties per MDA)
Assets Under Management	Annual Fee	Quarterly Fee	Total Annual Discount / Royalty (% of AUM)
\$0 - \$999,999	1.25%	0.3125%	0.3125%
Once the value of the managed account reaches \$1,000,000 the fee will be calculated on the following schedule, which will include the first \$1,000,000 in assets			
\$0- \$1,000,000	1.00%	0.2500%	0.2500%
\$1,000,001 - \$2,500,000	0.90%	0.2250%	0.225%
\$2,500,001 - \$5,000,000	0.80%	0.2000%	0.200%
\$5,000,001 - \$10,000,000	0.70%	0.1750%	0.175%
\$10,000,001 - \$20,000,000	0.60%	0.1500%	0.150%
Over \$20,000,001	0.50%	0.1250%	0.125%

(1) For accounts with assets under management of \$500,000 or less a total Royalty equal to 0.25% of all investment services fees received by DBSIA from MDA Members who become clients of DBSIA purchasing investment services for the first time (or purchasing investment services again following a termination of DBSIA investment services) following the Effective Date shall be equally divided and half paid to MDA and the other half provided as a fee reduction to the MDA Member; and

(2) For accounts with assets under management of \$500,001 or more a total Royalty equal to 0.25% of all investment services fees received by DBSIA from MDA Members who become clients of DBSIA purchasing investment services for the first time (or purchasing investment services again following a termination of DBSIA investment services) following the Effective Date shall be divided 0.08375 percent paid to MDA and 0.16625 percent provided as a fee reduction to the MDA Member.

DBS Investment Advisers, LLC
Proposed Royalties Adjustment
Examples represent annual royalties

	<u>Current Fee Structure</u>
Billable MDA Member Assets	\$22,261,272
MDA Revenue	\$24,576
+ \$5,000 Royalty for Existing Clients	+\$5,000
Total Annual MDA Revenue	\$29,576

	<u>Proposed Fee Structure</u>	<u>Proposed (+10% Market Rally)</u>	<u>Proposed (-10% Market Downturn)</u>
Billable MDA Member Assets	\$22,261,272	\$24,487,399	\$20,035,144
MDA Revenue - 12% of Fees		\$24,977	\$20,435
(w/ \$6,000 minimum*)	\$24,000	-	**
+ \$5,000 Royalty for Existing Clients	+\$5,000	+\$5,000	+\$5,000
Total Annual MDA Revenue	\$29,000	\$29,977	\$25,435

* We will guarantee a \$6,000 minimum per quarter, so long as Billable MDA Member Assets are \$22,000,000+

** Since billable assets under \$22,000,000, there is not a \$6,000 minimum obligation

Proposed MDA IFG Board Resolution:

Resolved that the DBS Investment Advisers member discount/royalty fee division be revised and adopted as indicated below, effective Jan. 1, 2022.

The Annual Fee for MDA Member Clients will be the lesser of the DBS fee (normal or negotiated) or 0.90% of assets under management; and

The royalty to the Association be 12% of fees received by DBS IA with a \$6,000 quarterly minimum for any quarter where assets under management from member-clients under endorsement totals at least \$22 million; and

That there be no change to the existing Annual minimum royalty of \$5,000 to cover pre-endorsement clients; and

That the Service Agreement be modified to reflect this update, effective Jan. 1, 2022.