

# Global Fund Investor Experience Study

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# Global Fund Investor Experience

## 2015 Report

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### Executive Summary

Since 2009, the Global Fund Investor Experience report has promoted dialogue about global best practices for mutual funds from the perspective of fund shareholders. This biennial report measures the experiences of mutual fund investors in 25 countries across North America, Europe, Asia, and Africa. Morningstar researchers evaluated countries in four categories—Regulation and Taxation, Disclosure, Fees and Expenses, and Sales and Media. Transparency remains a key focus, and, in 2015, the weighting to sales practices has been placed alongside fees.

### Key Take-Aways

- ▶ No country can claim universal best practice, but it is also true that none of them outright fail in providing a home for prospective fund investors.
- ▶ The United States remains at the top of the table in 2015 for treatment of investors but has been joined by Korea. China has the most difficult fund investing environment.
- ▶ Since our 2013 study, we have seen regulators in New Zealand introduce semiannual portfolio holdings disclosure, while Thailand will be moving from semiannual to quarterly. Australia is now the only market with no PHD requirements implemented. Globally, the industry is ahead of regulatory requirements, with monthly holdings releases becoming common.
- ▶ Both the Netherlands and United Kingdom improved results off the back of bans on commissions, improved fees, open architecture platforms, and advisors subject to some form of fiduciary duty test.
- ▶ Practically every market pointed to new or updated regulations over the past two years, spanning point of sale documents, portfolio disclosure, and advisor remuneration.
- ▶ Asian markets continue to have the lowest mutual fund taxation rates. Mutual funds carry no tax preference over other investments in Australia, Canada, Taiwan, and the United States.
- ▶ With Disclosure, the United States and Taiwan each receive an A and Canada receives an A–. Australia, South Africa, Singapore, and France lag behind other markets in this area.
- ▶ There have been some positive trends for simplified prospectuses. The majority of the countries in the survey now require that the simplified document only contain the individual fund being offered, and most also manage to keep them at fewer than five pages.
- ▶ A growing number of markets now require publication of portfolio managers' names and tenures including Canada, China, India, Korea, New Zealand, Taiwan, Thailand, and the United States.
- ▶ The United States, Australia, South Africa, and the Netherlands are markets where ongoing fund fees are typically unbundled. This will bring down reported fund fees, but, if paying for both advice and an administration platform, the total cost of owning the fund could be an additional 1.0% to 1.5%.
- ▶ In 22 of 25 countries, banks and insurance companies are named as one of the dominant fund sales channels. The next highest, with seven, is the independent advisor.

# Introduction

The Global Fund Investor Experience, or GFIE, report was created in 2009 to encourage a dialogue about global best practices for mutual funds from the perspective of fund shareholders. Following that report and the subsequent updates in 2011 and 2013, we know the reports have indeed generated dialogue and, in a number of instances, acted as a catalyst for change. This 2015 edition of the report covers 25 countries, with Finland as the latest addition.

The GFIE report examines the treatment of mutual fund investors from multiple viewpoints: the practices of the fund industry; the practices of fund distributors; the structure and effectiveness of regulatory bodies; disclosure policies; the tax code; and the role of the media. The report is not a commentary on a country's fund industry, as there are many factors besides industry behavior that affect an investor's experience. Moreover, because the report is about investors rather than the fund industry, it does not cover countries that have many funds but few investors. There is no section on Luxembourg, for example.

Morningstar has many views about what makes for a good experience for fund investors—views that are reflected in the survey's questions and in the scoring of the answers. As a general rule, Morningstar favors active regulation of funds; low tax burdens on investors; increased disclosure; lower fund fees; a varied distribution system that gives investors many ways in which to purchase funds; and media coverage that helps to educate investors. However, Morningstar is open to hearing opposing views, as well as to learning from discussions about unresolved issues. One of the aims of the GFIE report is to prompt such discussions.

This report considers publicly available, open-end funds—retail registered investment pools that are sold in the primary market and not resold in the secondary market. The pools do not carry insurance features and generally issue or redeem shares on a daily basis. Open-end funds have a variety of names, depending upon the country, including: mutual funds, investment companies, unit trusts, managed funds, UCITS, and SICAVs. For the purpose of simplicity, they are called “mutual funds” or just “funds” in this report. The GFIE report does not evaluate the investor experience of other pooled investment vehicles, for example, guaranteed funds, variable annuities, insurance-linked funds, private pension funds, closed-end funds, collective investment trusts, hedge funds, private-equity funds, venture-capital funds, institutional funds with limited distribution, or exchange-traded funds. Within the commentary on individual countries, there is discussion on factors that, while not explicitly incorporated for scoring, are still important for understanding the market.

### What Has Changed in 2015

Feedback from the 2013 study was reviewed and incorporated into the questions used in 2015. Broadly, this resulted in more focus on readily observable data points that can be compared across markets. For example, in addition to looking at regulatory disclosure requirements, the actual manager behavior in the provision of portfolio data to Morningstar was also incorporated for items such as portfolio holdings disclosure and portfolio manager names.

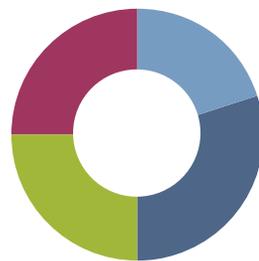
Opportunities to incorporate third-party data into elements of the study were also examined and led to the inclusion of The World Press Freedom Index into the assessment of media.

The section weights used for the overall grade were also adjusted to bring sales and media more in line with other sections.

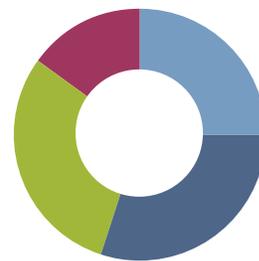
The Sales questions go right to the heart of whether a fund investor is going to have a better experience capturing distribution channel structures, prevalence of open architecture systems, fiduciary duties for advisors, conflicts of interest disclosure, and compensation arrangements. As witnessed in recent years, these are important elements that can greatly influence the experience of a fund investor.

Additional background information has also been provided around fees in an attempt to explain some of the differences observed among markets.

#### Exhibit 1 Section Weights



2015 Weight	%
Regulation and Taxation	20
Disclosure	30
Fees and Expenses	25
Sales and Media	25



2013 Weight	%
Regulation and Taxation	25
Disclosure	30
Fees and Expenses	30
Sales and Media	15

Source: Morningstar, Inc.

# Overall Country Scores

The GFIE report evaluates each country from four perspectives: Regulation and Taxation, Disclosure, Fees and Expenses, and Sales and Media. For each topic, Morningstar grades a country on the A to F scale. Each country's four topic grades are then combined to form an overall grade. While this model provides granularity, it is important to note that the separation between grades can be quite small. In Morningstar's view, while none of the GFIE's 25 countries can claim universal best practices, it is also true that none of them outright fail in providing a home for prospective fund investors.

**Exhibit 2** Overall Scorecard

<b>A</b>	↑ Korea	= United States					
<b>A-</b>	↑ Netherlands	↑ Taiwan					
<b>B+</b>	↑ U.K.						
<b>B</b>	↑ Sweden						
<b>B-</b>	↑ Australia	= Denmark	★ Finland	= Norway	= Switzerland		
<b>C+</b>	= Canada	↓ Germany	↓ India	↑ New Zealand	↓ Thailand		
<b>C</b>	↓ Belgium	↓ France	↑ Hong Kong	↓ Singapore	↑ South Africa	↓ Spain	
<b>C-</b>	↓ Italy	↓ Japan					
<b>D+</b>	↓ China						
<b>D</b>							
<b>D-</b>							
<b>F</b>							

Grade change indicators: ↑ Improved since last survey; ↓ Declined since last survey; = No change since last survey; ★ New country to survey  
Source: Morningstar, Inc.

The United States maintains its A rating, a position held since the inception of the study in 2009; however, in 2015 the top grade is shared with the Republic of Korea ("Korea"). The U.S. continues to lead with lower expenses and a strong disclosure regime. As with many markets, the U.S. does have areas to address, with only average results for Sales and Media and a score for Regulation and Taxation that trails many markets. Korea's position is attributable to solid results in all four areas and a strong showing in Regulation and Taxation.

Several countries come next, with Taiwan and the Netherlands receiving A- and the United Kingdom receiving B+. Taiwan, like most Asian markets, has a favorable tax regime and supports this with good disclosure practices and sales factors. When viewing markets such as Korea and Taiwan, it is worth noting that the regulators have put in place good guidelines for the conduct of a fund industry, adopting global best practices in many instances. Within those guidelines, market participants must

still develop an industry focused on long-term wealth creation and address issues that stem from the anecdotally short holding periods for funds in these markets—an area we hope to do more work on for the 2017 study.

For the Netherlands and U.K., there were a number of factors leading to the improvement in the overall result, but it probably isn't a coincidence that both markets have implemented bans on commissions in recent years. This is immediately recognizable in improved results for Fees, as more assets move into funds with unbundled pricing structures. This is also reflected in Sales factors, with both markets indicating the majority of funds are sold through open architecture platforms and advisors are also subject to some form of fiduciary duty test.

Most countries are graded at B-, C, or C+. Almost all European countries land in this range, with only small differences occurring between markets. The Undertakings for Collective Investments in Transferable Securities directive (UCITS; recently updated to the fifth revision, known as UCITS V, and discussion on UCITS VI under way) and the Markets in Financial Instruments Directive (MiFID) ensure that fund regulations, disclosure, and marketing meet minimum standards across the continent. Different European countries have stronger investor practices in differing areas, but in general investors fare equivalently. Typically, countries falling in this group receive average grades across all four areas; however, markets such as Australia (B-) and Canada (C+) show more differences. Australia scores highly for Fees and Sales and Media but at the other end of the spectrum for Disclosure and Regulations and Taxation. For Canada, it is a strong grade in Disclosure that is being offset by Fees and Expenses.

China, Italy, and Japan receive the lowest overall grades in the 2015 study. For China, this was driven by relatively high fees, particularly for allocation and money market funds. China was one of a minority of markets where the disclosure of conflicts of interest by advisors was not common, coupled with relatively aggressive incentive structures. Italy has all of the basics in place but does not lead in any category, impacting the overall result. Relatively higher fees for locally domiciled equity and fixed-income funds coupled with poorer portfolio holdings disclosure practices help to push Italy to the bottom of the rankings. Fees were also a factor in Japan's ranking, along with some relatively weaker disclosure practices—portfolio manager names are rarely disclosed to investors, and portfolio holdings practices are some of the weakest in the study.

# Regulation and Taxation

For the Regulation and Taxation section, Korea has the top score and Australia the lowest score. As in 2013, the highest-scoring overall country, the U.S., fares relatively poorly for Regulation and Taxation, earning the second-lowest grade of C-. Singapore continues to perform strongly in this area with second ranking, followed closely by a group of countries from both Asia and Europe.

## Exhibit 3 Regulation and Taxation Scorecard

<b>A</b>										
<b>A-</b>	↑ Korea									
<b>B+</b>	↓ Singapore									
<b>B</b>	↓ Hong Kong	= Japan	↑ Norway	↓ U.K.						
<b>B-</b>	= Belgium	↑ China	↑ Denmark	= France	★ Finland	= India	↑ Italy	↓ Spain	↓ Switzerland	↓ Thailand
<b>C+</b>	↓ Germany	↓ Netherlands	↓ South Africa	↑ Sweden	↓ Taiwan					
<b>C</b>	↓ Canada	= New Zealand								
<b>C-</b>	↓ United States									
<b>D+</b>										
<b>D</b>	↓ Australia									
<b>D-</b>										
<b>F</b>										

Grade change indicators: ↑ Improved since last survey; ↓ Declined since last survey; = No change since last survey; ★ New country to survey  
Source: Morningstar, Inc.

In Morningstar's view, the best regulatory practice is to have a single regulator that is independent of the fund industry. The regulator is responsible for overseeing the management, disclosure, operations, and distributions of all types of investment funds. As an independent entity, the regulator does not face the conflicts of a self-regulatory body, which must balance the desires of the industry with the need to protect investors. Industry bodies can still be a meaningful participant in regulatory discussions, and the practical experience brought to the table is often a necessary component of regulatory development. Having a single regulator rather than multiple regulators, and having this single regulator oversee all investment funds, helps reduce the cost of regulation and simplifies the message to fund companies.

Additional best practices include adequate staffing, public disclosure, and stability. Adequate staffing is needed so that the regulator can pursue infractions as needed and can be proactive in addition to reactive. Public disclosure of the regulator's actions serves two purposes. First, it discourages malfeasance by deterring similar violations. Second, it gives the investing public the confidence that

it is aware of all industry issues—nothing is being hidden from view. Finally, stability helps to ensure compliance—if the rules are well-known, they are likelier to be followed. Regulations need to be updated in a timely fashion to handle emerging practices and changes in the marketplace, but the alterations should not be too frequent.

Two thirds of countries in the GFIE report are served by a single regulator. Where multiple regulators do exist, they either fall under a parent body (China, Taiwan, U.K.) or are typically acting in a coordinated fashion. One theme identified in both Australia and the U.S. is the need to watch for and coordinate regulations that cut across both managed funds and retirement vehicles.

As a general rule, Morningstar finds that regulatory enforcement is comprehensive across the globe, but not proactive. In response to issues highlighted during the financial crisis, there has been a significant amount of regulation introduced over the past five years that aims to help or protect investors. Practically every market pointed to new or updated regulations over the past two years. Interestingly, the U.S. probably had the least activity in this area and appears toward the bottom of the scoring for this category. Clearly, this market has well-established practices and structures, but other markets are developing at a faster rate in this area. (Although, as this report came to press, on May 19, 2015, the U.S. Securities and Exchange Commission issued 506 pages of replacement disclosure rules. These rules are in an initial proposal phase, and final rules and implementation dates are not yet known.) The Netherlands joined markets like the U.K. and Australia in banning commissions, but, unlike other markets, did so with relatively few grandfathering provisions—investors were required to be moved to funds with no trail fees paid to advisors, with a limited number of exceptions. Singapore has introduced requirements for advisors to be remunerated on a balanced scorecard approach and not pure sales. Within Europe, MiFID II has been adopted (effective Jan. 3, 2017) and will bring in tougher rules on protecting investors, managing systemic risks, and improving transparency and competition. Local regulators in Europe are also selectively moving to harmonize some local laws with European requirements. Both New Zealand and Thailand have completed substantive changes to security laws. More broadly, Morningstar also observes increased globalization of regulatory standards both through coordinated efforts by regulators and a growing awareness of global best practice.

In about 70% of countries, all regulatory actions are disclosed to the public. For the most part, fund advertising is well-regulated across the globe.

Moving from the actions and structure of the regulator to issues controlled by fund companies, Morningstar believes that both fund auditors and fund custodians should be completely independent of the fund companies that they serve. In the global marketplace, that holds true for auditors but not for custodians, as close to two thirds of the countries in the GFIE report permit the management firm and fund custodian to share common ownership.

Morningstar's view on soft-dollar commissions—that is, brokerage commissions that the fund does not pay with cash, but rather with other goods or services that it purchases from the broker that executes the trades—is simple: the fewer the better. Ideally, fund companies would not use soft-dollar arrangements at all. But if they do, they should be disclosed and used on research that directly benefits the fund. Morningstar does not approve of soft dollars being used to offset fund management expenses, pay entertainment costs, and so forth.

The otherwise strong U.S. market is an exception and one where fund companies commonly use soft-dollar arrangements and which does not have regulation or a regulatory body overseeing such arrangements. (The CFA<sup>®</sup> Institute, which governs Chartered Financial Analysts<sup>®</sup>, fills some of this gap with a code of conduct that mandates that all CFA charterholders only use soft-dollar arrangements if they benefit investors.) In contrast, all European countries subject to MiFID are subject to soft-dollar rules limiting their use to research that benefits investors.

Supervisory boards for funds, separate from that of the fund company, are in the majority in this study, but there remain a number of markets that do not have this structure. Independent boards of directors are still uncommon in funds, with only a fourth of countries requiring a minimum level of independence. Only in India are independent directors required to be a majority of the board.

Most markets, with the exception of China, India, and South Africa, impose no limitations on what funds can invest in. The U.S. also applies restrictions for markets viewed as state sponsors of terrorism—in practice, this is a very small opportunity set.

While fund passporting is a growing discussion point on the global stage, Europe remains the only market where funds (UCITS) receive automatic registration in multiple markets. Within Asia-Pacific, there are a growing number of markets prepared to register funds from other markets, and, under the passporting initiatives, there are streamlined registration processes available for countries that meet specific provisions. Separate to the regulatory requirements, Morningstar observes that foreign funds are easily available to investors in most markets.

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**Exhibit 4** Are Foreign Funds Easily Available to Investors?

	Country Count	Portion of Sample %
Yes	13	52
Somewhat	7	28
No or Rarely	5	20

Source: Morningstar, Inc.

Morningstar's position on taxes is the same as its take on soft-dollar arrangements: Less is more. The lower an investor's tax bill, the higher that investor's return. This stance should not be interpreted to mean that Morningstar believes that a country should adopt a low-tax government rather than an administration that charges higher taxes. Morningstar has no view on a country's optimal tax policies. Rather, looking at the matter solely from the perspective of a fund investor, a lower tax rate is better, and tax incentives that reward long-term investing are better. Thus, the GFIE report evaluates taxes only from the perspective of the mutual fund investor. Additionally, the analysis only considers taxes for investors with citizenship or permanent residency in each market.

Ideally, the fund investor would pay no taxes at all. Of the 25 countries in the GFIE report, Singapore and Hong Kong meet this standard. The remaining 23 countries do levy taxes on fund investors but typically ease the burden by offering tax breaks for long-term fundowners. In fact, investors in Thailand investing in long-term (five-year) equity funds can receive a tax credit that more than offsets ongoing taxes. There are seven markets where no additional tax benefits specific to fund investing exist, including Australia, Canada, Taiwan, and the U.S.

The second-best policy is to exempt the fund shareholder from taxes until the fund is sold. That is, income, capital gains generated by the fund's trades, and internal capital growth from appreciation in the fund's securities would all be immune from taxes as long as the shareholder retains the fund (or alternatively, until the shareholder reaches retirement age). Only Japan, Spain, Finland, and Sweden have systems approaching this.

Next in attractiveness is to exempt fund investors from capital gains while they hold a fund but to tax a portion or all of the fund's income. Many countries have variations of this policy.

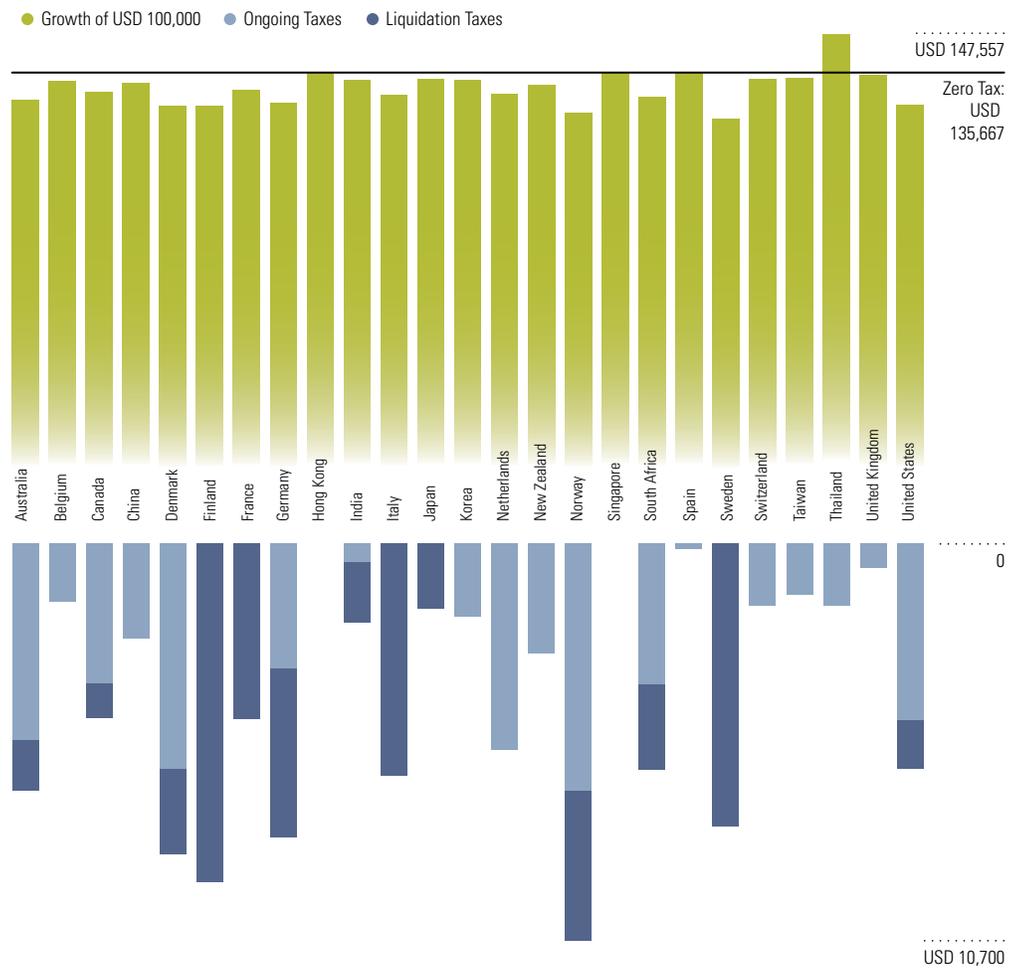
Other tax features that assist fundowners include dividend imputation, where investors only pay taxes on the difference between their personal tax rate and the tax rate that the corporation has already paid through its corporate taxes; applying an inflation index to capital gains taxes; and having the capital gains rate decline over time to reward investors for holding securities longer. Finally, many countries establish tax-protected retirement or long-term savings accounts that are under different tax regimes than are standard fund accounts.

In measuring the overall attractiveness of a country's tax policy toward fund investors, Morningstar calculated the tax effect on a hypothetical investment that is held for five years. The portfolio consists of 60% in equity funds and 40% in fixed-income funds for a married couple with a combined income of USD 100,000. If the country offers a type of fund account that offers additional tax protections for an investor with a five-year time horizon, then that account was used for the exercise.

Of course, the calculations are affected by the assumptions about the holding length, the portfolio assets, the income, and whether the subject is married or single. Nonetheless, the results are

reasonably robust in that the rank order of countries tends to be fairly consistent no matter which assumptions are used.

**Exhibit 5** Effect of Taxes on Hypothetical Investment Portfolio



Source: Morningstar, Inc.

Overall, Thailand, Hong Kong, and Singapore have the best tax systems for fund investors, and Norway, Sweden, Denmark, Finland and the U.S. have the least attractive aftertax returns.

# Disclosure

With Disclosure, the U.S. and Taiwan receive As and Canada an A-. Australia, South Africa, Singapore, and France lag behind other markets with lower levels of disclosure.

## Exhibit 6 Disclosure Scorecard

<b>A</b>	↑ Taiwan	= United States							
<b>A-</b>	↑ Canada								
<b>B+</b>	↑ Sweden								
<b>B</b>	= Denmark	★ Finland	= Korea						
<b>B-</b>	= Norway	= Thailand							
<b>C+</b>	↓ China	↓ Germany	↓ India	↓ Netherlands	↑ New Zealand	↓ Spain	↓ Switzerland	= U.K.	
<b>C</b>	↓ Belgium	↑ Hong Kong	↓ Italy	↓ Japan					
<b>C-</b>	↓ France	↓ Singapore							
<b>D+</b>	= Australia	↑ South Africa							
<b>D</b>									
<b>D-</b>									
<b>F</b>									

Grade change indicators: ↑ Improved since last survey; ↓ Declined since last survey; = No change since last survey; ★ New country to survey  
Source: Morningstar, Inc.

Disclosure begins with a fund's initial document—the prospectus. The best practice for prospectus disclosure is to have a short-form offering document, or simplified prospectus, so that prospective investors can see a fund's costs, risks, and investment strategy in a form that is easily and quickly comprehended. Ideally, the document will cover a single fund rather than a collection of funds—after all, the goal of the simplified prospectus is to be simple, rather than cumbersome. The short-form version should be no more than 10 pages in length, ideally five pages or fewer. Its writing style should be in plain language and avoid investment jargon as much as possible. Information about the fund's risks and investment strategy should be specific to the fund and should avoid using generic, boilerplate language that could apply to almost any fund in existence.

A critical item in both the simplified prospectus and the full version of the document is the presentation of ongoing fees. For the purpose of this report, we will use the term Expense Ratio (ER) as a general term to describe the ongoing fee measures used in multiple markets. As annual expenses are arguably the most important item for a fund investor to consider, it is important that these figures be presented in a format that permits ready comparisons. Ideally, the fund will show several years' worth of ERs so that prospective investors can see whether these figures are trending up or down. Best

practices also include translating the percentage costs of the ER into a monetary total on a hypothetical investment so that investors realize what the somewhat abstract percentage figures mean when converted into actual currency costs—only nine of the 25 markets require monetary examples.

Nearly all countries have uniform ERs that meet International Organization of Security Commissions (IOSCO) definitions. Another potential area of confusion is acquired fund fees. Investors must be careful about which ER they look at, and they must be aware of what is included in that figure. UCITS IV in Europe has introduced the concept of Ongoing Charges, which should include acquired fund fees (and performance fees), but the specific application on inclusion of these expenses is still unclear. In the U.S., the prospectus expense ratio includes acquired fund fees but the shareholder report ER does not. Just under half of the markets indicate that this information is available in both prospective and historic data.

Other important features of a prospectus (simplified or otherwise) are information about trading costs, standardized total returns for various time periods, the name and tenure of the fund's portfolio manager(s), summary information about the fund's portfolio holdings, and the portfolio management team's compensation and incentives. Trading cost information in the form of brokerage commissions and/or a turnover ratio is fairly common, as is the presentation of total returns. Data about the fund's managers and investment holdings are less common. Only the U.S. provides compensation information. An interesting trend identified in numerous markets is for fact sheets to accompany simplified prospectus documents for investors. These fact sheets are produced on a regular basis (monthly) and are better placed to provide information around returns and portfolio attributes.

There have been some positive trends for simplified prospectuses. The majority of the countries in the survey now require that the simplified document only contain the individual fund being offered. Most countries also manage to keep their simplified prospectuses at fewer than five pages, with China, Korea, and New Zealand exceeding 10 pages, albeit with summary pages within the document. All countries do succeed in communicating through plain language.

With both prospectuses (simplified and regular) and shareholder reports, best practices suggest that all retail investment funds should have the same format and rules for disclosure regardless of fund type. That is, in addition to the open-end mutual funds covered by the GFIE report, closed-end funds, ETFs, insurance funds, and other fund types not found in this report should also be treated in a similar fashion. Doing so increases comparability for investors so that they can evaluate investments that span different fund types. It also simplifies compliance for fund companies.

The global record for this practice is mixed. In Europe, the Key Investor Information Document (KIID) requirement ensures that all UCITS products disclose the same information in the same format, and the MiFID provides further comparability and protections. In the U.S., all funds registered under the Investment Act of 1940 are subject to identical reporting, but other types of funds can be

offered under municipal, employment, commodities, or insurance regulations that are subject to slightly different disclosure rules. In other countries, only open-end products are subject to these specific disclosures, with ETFs having completely separate disclosure requirements, although many ETFs and open-end funds provide similar, and sometimes identical, exposures.

With shareholder reports, as opposed to prospectuses, the two key issues are the disclosure of portfolio holdings and management's discussion of performance.

A growing number of markets now require publication of portfolio managers' names and tenures including Canada, China, India, New Zealand, Korea, Taiwan, Thailand, and the U.S. In practice, funds in a large number of countries do volunteer the manager names, if not tenures. For example, the Morningstar database has close to full coverage of managers' names in Sweden, Norway, Denmark, Italy, and the U.K.

As for management's discussion of performance, around 80% of the countries in the GFIE report require inclusion of such material. However, in only five countries does Morningstar regard the discussion as being consistently specific to the fund, as opposed to being a generic summary of the economy and market conditions. Australia, Korea, and Switzerland are the only countries in the survey where a discussion is neither required nor typically provided.

### Portfolio Holdings Disclosure

Ideally, complete portfolio holdings are published monthly in a centralized electronic format, one that makes it easy for either a retail investor or an institution to quickly locate and gather the information. (Prospectuses and financial statements should also be centrally and electronically filed.) The statement of investments should include all long, short, and derivative positions. The following table shows the required level of portfolio disclosure for the countries in this study.

**Exhibit 7** Disclosure Intervals for Countries With Regulated Portfolio Holdings Disclosure

	Number of Countries	Portion of Sample %
Monthly	2	8
Quarterly	5	20
Semiannually	17	68
Annually	0	0
None	1	4

Source: Morningstar, Inc.

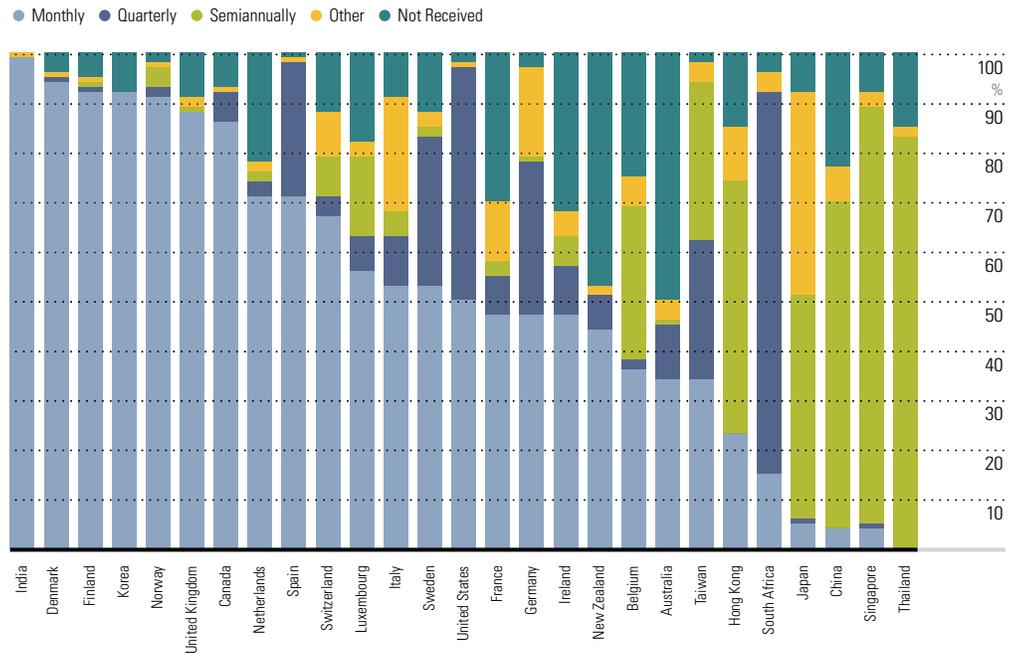
Presently, only India and Korea require portfolio disclosure monthly. The most common form of regulated disclosure is semiannually. Since our 2013 study, we have seen regulators in New Zealand

introduce semiannual portfolio holdings disclosure, while Thailand will be moving from semiannual to quarterly disclosure during the third quarter of 2015. Australia is now the only market in this study without any form of regulated disclosure in operation—the legislation exists but the regulations are still to be finalized and implemented.

In the 2015 study, we also wanted to capture actual practices of asset managers around portfolio holdings disclosure and have used the provision of portfolios to Morningstar as a proxy for this analysis—globally, Morningstar collects and processes more than 800,000 portfolios a year across a range of security types.

The graph below provides an indication of how often portfolios are actually provided to Morningstar across 27 countries for open-end funds domiciled in that market. Data for Luxembourg and Ireland have been included, given that many funds from these markets are available for sale in multiple markets.

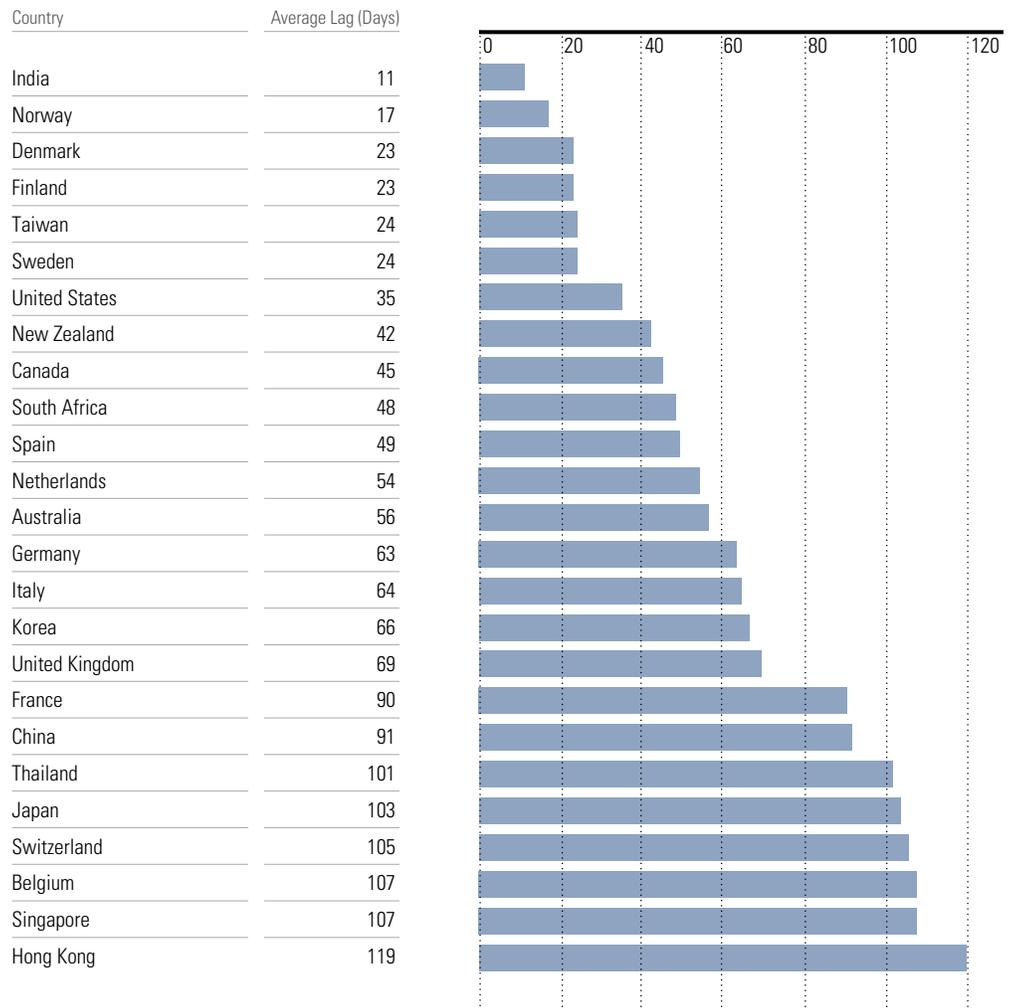
**Exhibit 8** Monthly Provision of Portfolios Is Quickly Becoming the Standard



Notes: Australia—portfolios are not displayed in full but used mainly for fund and portfolio analytics. New Zealand—still in a transition period, with figures likely to improve over the next two years. Thailand—will move to a minimum quarterly disclosure with the June 30, 2015, portfolios. Source: Morningstar, Inc.

Leading the way in the provision of monthly portfolios are India and Korea. The Nordic countries of Denmark, Finland, and Norway also figure prominently. The U.S., the largest fund market and one with a long history in portfolio holdings disclosure, has a regulated requirement of quarterly disclosure but approximately half choose to disclose at the more regular interval of monthly. Korea is required to provide monthly holdings to the regulator but not to the investing public.

The study also analyzed how long after period end portfolios are typically provided. Portfolio holdings disclosure is not about the disclosure of real-time portfolios. The question of appropriate lag is often debated and will vary depending on the type of portfolio, style of management, and amount of money being run in the strategy. When setting maximum lag periods, regulators need to take this into account, with figures of 60 or 90 days common. Our experience is that most managers can physically provide a portfolio electronically within 10 business days of period end—and are increasingly being required to for regulatory reporting (EMIR, Dodd-Frank, EIOPA Solvency II). What we have analyzed in the following exhibit is the number of days after period end that we typically release a portfolio into our system for viewing and analytics. A fund that delivers a portfolio to Morningstar on day 10 but requests the portfolio to be suppressed from general release until day 60 is recoded as 60 days for this analysis.

**Exhibit 9** Average Portfolio Release Lag

Source: Morningstar, Inc.

Once again, we can observe many markets where the average manager is releasing portfolios well in advance of the regulated maximum. For example, the U.S. carries a maximum 60-day-lag requirement (45 days for quarterly portfolios), but the average manager is providing portfolios in a little more than half this time.

Another considerable factor influencing this data is whether the portfolio is being provided in some readable electronic format or as a hard-copy document. The latter is true of many Asian markets, contributing to the relatively slower response times. Once an electronic reporting system is established, the cost and system time required to produce the report are both reduced.

# Fees and Expenses

For Fees and Expenses, the highest-scoring country (that is, the country with the lowest costs) is the U.S., a position held since the start of this study in 2009 and reflective of the scale of this market and, as discussed later, sales practices. Australia and the Netherlands join the U.S. with an A grade. Among the lowest-scoring markets are Canada and China, which, while not the most expensive in all categories, do not have any category where fees are at an average or better level.

**Exhibit 10** Fees and Expenses Scorecard

<b>A</b>	↑	Australia	↑	Netherlands	=	United States		
<b>A-</b>								
<b>B+</b>	↑	Korea						
<b>B</b>	↑	Denmark	↑	New Zealand	↑	South Africa	=	Sweden
<b>B-</b>	★	Finland	↓	India	↓	Norway	=	Spain
<b>C+</b>	↓	France	↓	Thailand				
<b>C</b>	=	Belgium	↓	Germany	↑	Italy		
<b>C-</b>	↓	Singapore						
<b>D+</b>	↓	China	↓	Hong Kong	=	Japan	↓	Taiwan
<b>D</b>								
<b>D-</b>	↑	Canada						
<b>F</b>								

Grade change indicators: ↑ Improved since last survey; ↓ Declined since last survey; = No change since last survey; ★ New country to survey  
Source: Morningstar, Inc.

Fees and Expenses make up 25% of a country's overall grade in this report. Many studies by Morningstar and others have demonstrated that the most consistent predictor of a fund's net performance over time is the level of its annual expenses. Clearly, the best practice from an investor's viewpoint is to have access to—and purchase—funds that have lower annual costs.

In addition to annual expenses, funds sometimes levy charges in the form of either front-end load charges, which are sales commissions paid at the time of purchase of a fund, or deferred loads that are paid when the investor exits a fund. These charges were never the most important costs to long-term investors, and they're rapidly becoming even less important as more countries move away from load shares and as loads are negotiated or waived. As for deferred sales charges, they were once very popular in the giant U.S. market but have fallen steeply out of favor, with many fund companies shutting down the share classes that charged deferred loads.

Specifically, in two thirds of countries, front loads are negotiable with the advisor. In other markets, they are fixed on a specific breakpoint schedule, giving investors little room to negotiate price. In China and Finland, loads are negotiable but only for large investments. In New Zealand and South Africa, loads are typically discussed as part of the sales or advice process and often negotiated away. There are no front loads in India, with all investors subject to an exit load.

In addition to ongoing, stable expense ratios, fund investors sometimes are charged performance fees that are based on the returns of the fund. Best practice for performance fees is for them to be symmetrical, so that a fund company is penalized for shortfall as well as rewarded for success. However, since few countries require that performance fees be symmetrical, few funds are constructed that way. It is instructive that in the U.S., where performance fees are required to be symmetrical, those fees are exceedingly rare within mutual funds. Performance fees are prohibited for funds in China, Korea, and India; however, like the U.S., they may still exist in other structures, for example, hedge funds or private placement funds. Compounding the issue, many asymmetrical performance fees in the countries that allow them have been found to lack appropriate hurdle rates and high-water marks, further favoring the manager while hurting the investor. Only a little more than half the markets with performance fees have sufficient disclosure of the terms of the performance fee to enable an investor to estimate this expense.

### **A Focus on Annual Expense Ratios**

One of the difficulties in comparing annual expense ratios across countries has been the development of unbundled fee arrangements, whereby an advisor is not paid a sales commission by the fund company in the traditional model but rather is paid a separate fee by the fund investor. When taken, this action has the effect of lowering official fund expense ratios because funds no longer need to collect money from shareholders to make advisor payments. It also has the effect of complicating expense-ratio comparisons, because the investor in a lower-cost fund may pay an additional fee to an advisor that is not considered in Morningstar's calculations.

In 2013, the U.S. was the main exception to the dominant position of bundled fee arrangements worldwide. As part of this study, we have also identified Australia, South Africa, and the Netherlands as markets where the fees are also typically unbundled. There are a number of other markets where unbundling is a growing trend, including New Zealand, U.K., Denmark, and Switzerland. The U.K., Australia, and the Netherlands are all markets that have banned commissions in recent years, but the timing, and way it has been done, has left the average investor in slightly different positions. Australia has been on the path of using unbundled funds through open architecture platforms for many years and has a large part of investor assets already in this space. The U.K. has made the ban, but existing arrangements have been grandfathered, meaning it will take time for assets to move toward unbundled arrangements. The Netherlands accelerated this process by requiring fund companies to move most investors (there were some exceptions) into funds that did not pay an ongoing fee to the advisor.

Interestingly, while there were only nine markets that indicated the practice of paying for advice outside of commissions was present in some meaningful manner, there were 18 markets where investors could buy funds without loads or commissions relatively easily.

What is the total cost of owning an unbundled fund? We specifically looked at information available from the U.S., Australia, the U.K., and South Africa to answer this question. If an investor has accessed the fund directly, without the help of an advisor, then there are no more costs. Where an advisor is involved, there is no one number but typically a range. Broadly, ongoing fees paid to advisors range from 0.5% to 1.2% per annum, with 0.75% quoted as an average. These ranges were similar in each of the four markets. When using a platform to gain access to a range of unbundled funds, there is typically a fee for this service as well. The range here is 0.00% to 0.75%. These costs are typically very low or bundled elsewhere, in the case of the U.S., and tend to be in the order of 0.3% to 0.4% in other markets. If paying for both advice and an administration platform, the total cost of owning the fund could be an additional 1.0% to 1.5%.

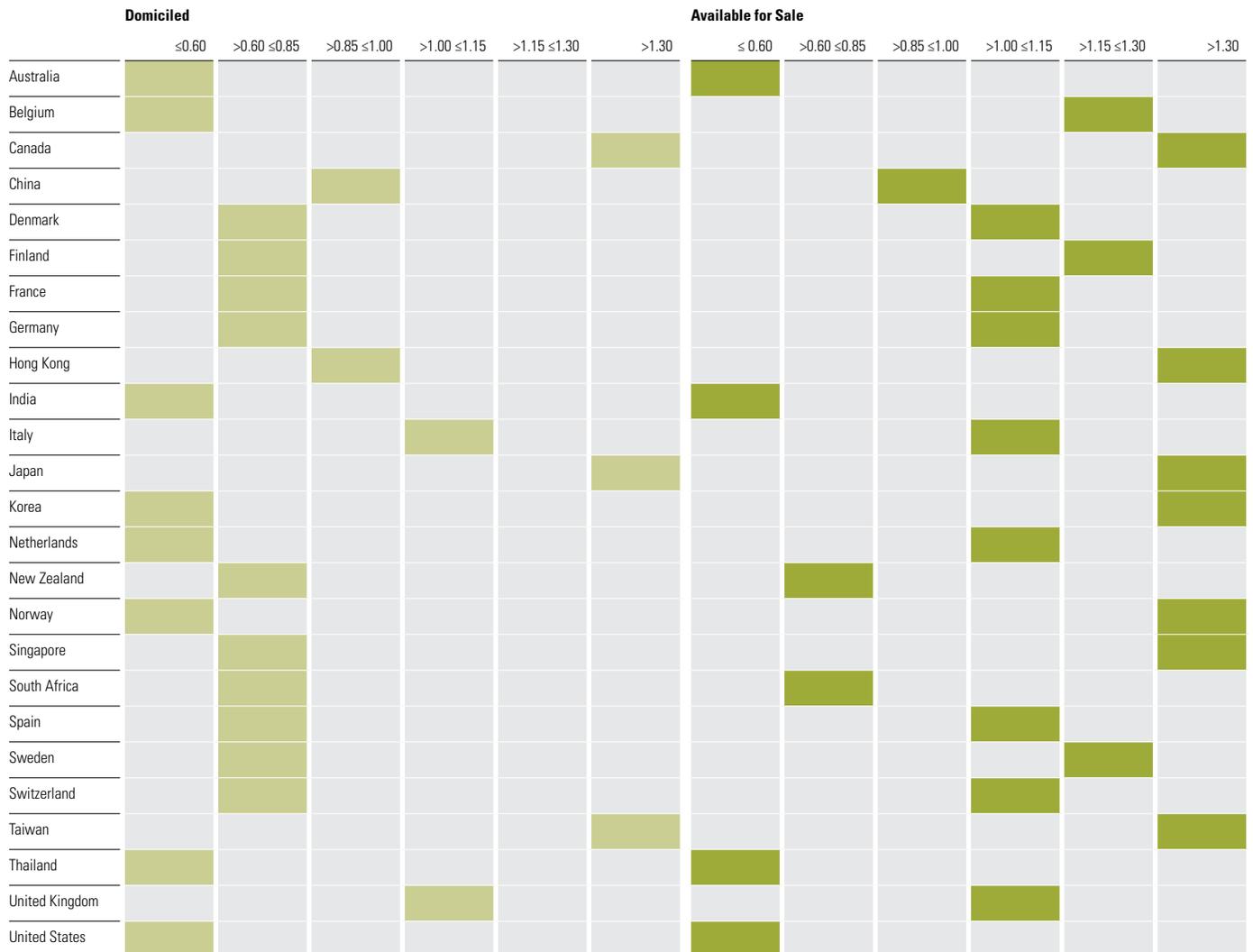
This point is further illustrated when considering the contrast between the U.S. and Canada, two neighboring markets that are closed to foreign funds. As discussed, the U.S., unlike the vast majority of countries in this survey, is marked by a large number of self-directed investors, economies of scale, a high level of price competition, a retirement tax preference that uses the same investments in tax-preferred structures, and one of the highest percentages of assets paying an outside advisory fee not reflected in a fund's ER. Canada is on the opposite end for all those factors, plus Canada levies a consumption tax on fund management services. In particular, if you took out the ongoing advice fee from the Canadian funds' ERs, the resultant fee would push into the top half of lower fee markets in this study.

In a similar way, if you added advice and platform fees onto the cost of a South African fund, the total would be one of the most expensive in the study.

Notwithstanding these points, the main scoring component for this section is the asset-weighted fund ER by country. While this may not always represent the total cost to an investor, it does provide the best available objective measure to compare fund costs across markets and benefits those markets where additional costs are more transparent to investors. The study breaks up the markets into four groups of funds: fixed income, equity, allocation, and money market funds. The calculations consider two perspectives: funds available for sale in the marketplace and funds that are locally domiciled. Thus, a country is measured both by the opportunity that it gives to investors in registering outside funds (available for sale) and by the costs associated with its own, domestically grown industry.

For fixed-income funds, Belgium, Korea, and Thailand report some of the lowest fees for domestic funds, and Japan and Canada the highest. Locally domiciled fixed-income funds are consistently less expensive than the full range of funds available.

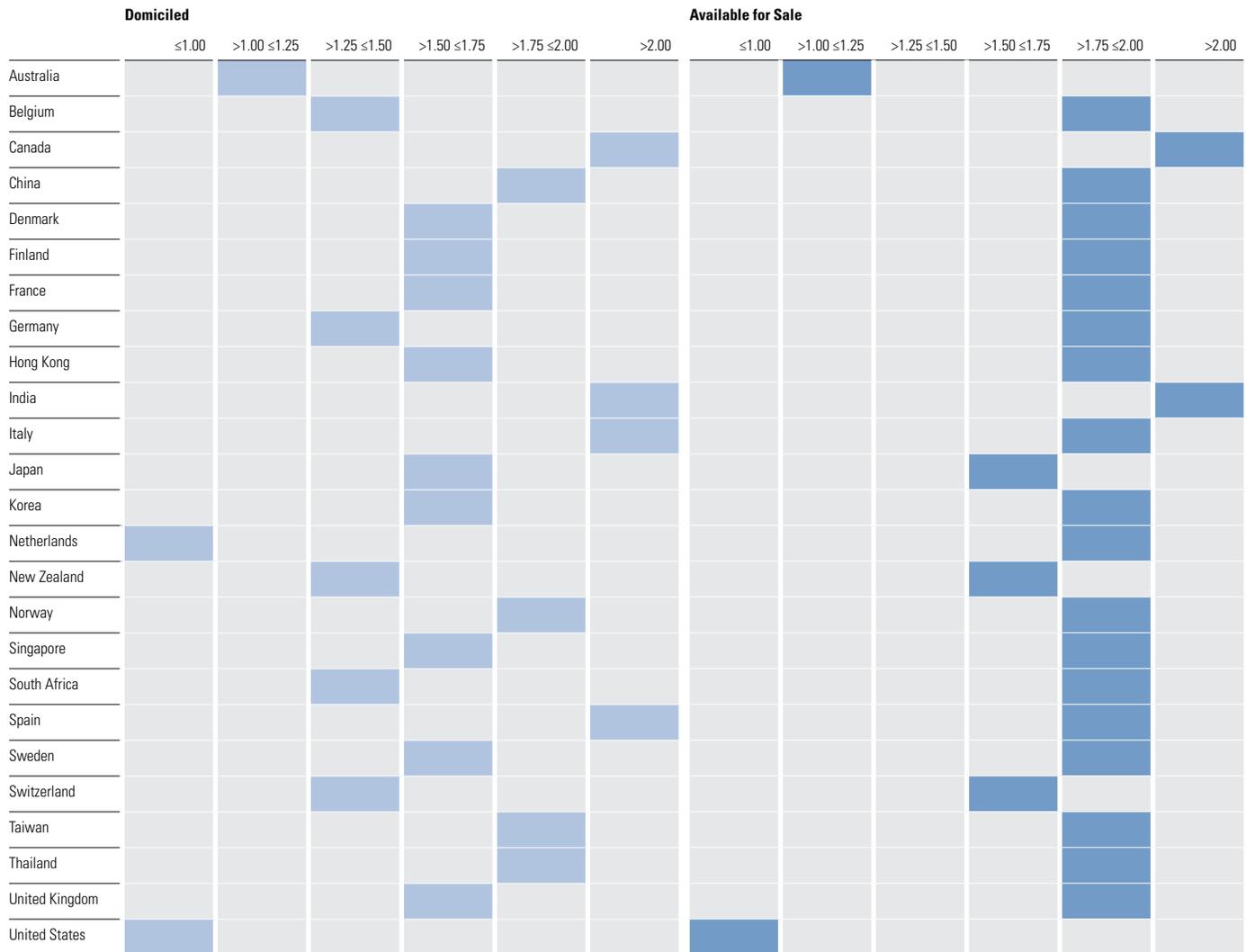
**Exhibit 11** Asset-Weighted Median Expense Ratio Ranges for Fixed-Income Funds %



Source: Morningstar, Inc.

As expected, fee levels for equity funds are higher than for fixed income. Not only are equity funds more expensive to manage than fixed-interest funds, but equity funds also typically attract higher advice fees for clients, which serve to move these ERs higher when bundled into the fund fee. Only the U.S. and Netherlands report asset-weighted expense levels below 1%. India, Canada, Italy, and Spain all report ERs of more than 2% on equity funds.

**Exhibit 12** Asset-Weighted Median Expense Ratio Ranges for Equity Funds %



Source: Morningstar, Inc.

With allocation funds, the U.S. is once again the lowest in cost overall, although allocation funds domiciled in Australia and Denmark are also cheap. Most countries fall between 1.00% and 1.70% for asset-weighted expenses for allocation funds, with India and Canada the most expensive at over 2.00%.

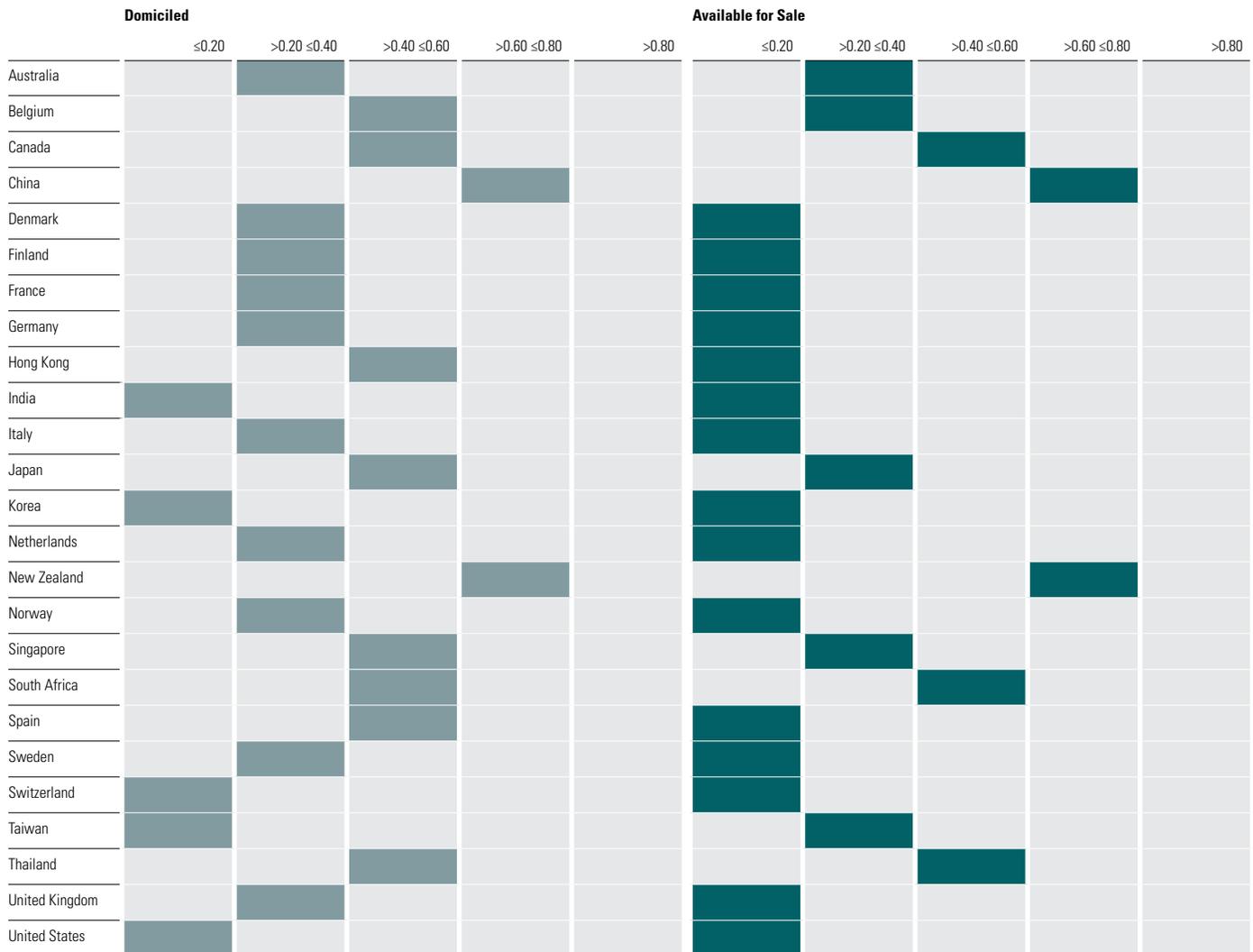
**Exhibit 13** Asset-Weighted Median Expense Ratio Ranges for Allocation Funds %

	Domiciled					Available for Sale						
	≤1.00	>1.00 ≤1.25	>1.25 ≤1.50	>1.50 ≤1.75	>1.75 ≤2.00	>2.00	≤1.00	>1.00 ≤1.25	>1.25 ≤1.50	>1.50 ≤1.75	>1.75 ≤2.00	>2.00
Australia	█						█					
Belgium		█							█			
Canada						█						█
China					█						█	
Denmark	█								█			
Finland		█							█			
France				█						█		
Germany				█						█		
Hong Kong				█						█		
India						█						█
Italy				█						█		
Japan			█						█			
Korea		█							█			
Netherlands		█							█			
New Zealand			█						█			
Norway		█							█			
Singapore			█							█		
South Africa				█						█		
Spain			█							█		
Sweden				█					█			
Switzerland			█						█			
Taiwan			█							█		
Thailand			█						█			
United Kingdom			█						█			
United States	█						█					

Source: Morningstar, Inc.

This study continues to see a decline in ERs on money market funds, with historically low interest rates putting added pressure on fees in this category. Investors in the U.S., Korea, and India all pay less than 0.20% for their funds, while investors in China and New Zealand pay 0.63%.

**Exhibit 14** Asset-Weighted Median Expense Ratio Ranges for Money Market Funds %



Source: Morningstar, Inc.

Once again, it was surprising how little effect economy of scale seems to have on the fee result. Most funds are not designed to lower their management fees as their assets increase. At the country level, the huge U.S. marketplace shows the effect of economy of scale and competition, but otherwise there is little correlation between the size of a fund market and the costs of its funds. The very large pan-European UCITS marketplace does not seem to have led to reduced costs; indeed, small locally domiciled funds are often cheaper than giant Luxembourg- and Ireland-based funds. Perhaps this reflects higher regulatory and distribution costs for cross-border funds or the fact that these funds have to be built to cater for the highest-cost markets—it is easier to rebate fees than to layer additional ones on. Either way, the cost of cross-border funds should continue to gain additional scrutiny as this segment continues to grow from an already strong base.

# Sales and Media

Australia, Taiwan, and the U.K. have the best investor experiences for Sales and Media, and Spain, China, Norway, and Denmark have some of the worst.

From the perspective of the investor, the best Sales and Media practices have a number of principle dimensions:

**Exhibit 15** Sales and Media Scorecard

A							
A-	↑	Australia	↑	Taiwan	↓	U.K.	
B+	↑	Hong Kong					
B	↑	Belgium	↓	Canada	↑	Germany	↑ Korea = Netherlands ↑ Singapore ↑ Switzerland
B-	↑	India	=	Japan	↓	United States	
C+	=	France	↓	New Zealand	↑	South Africa	
C	★	Finland	↓	Italy	=	Sweden	↑ Thailand
C-	↓	China	↓	Denmark	↓	Norway	↑ Spain
D+							
D							
D-							
F							

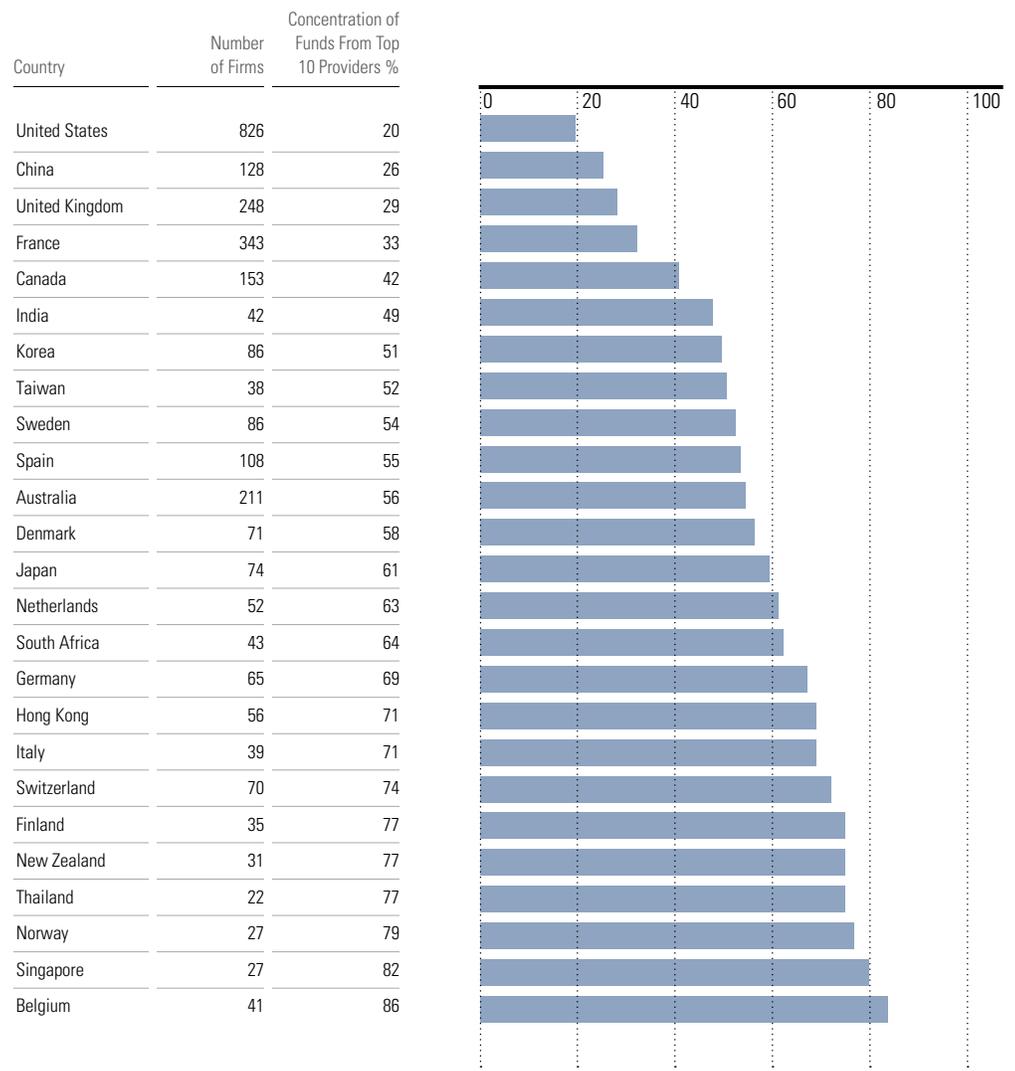
Grade change indicators: ↑ Improved since last survey; ↓ Declined since last survey; = No change since last survey; ★ New country to survey  
Source: Morningstar, Inc.

- ▶ A choice of channels and platforms through which to acquire a fund;
- ▶ A choice of funds from multiple managers within the selected platform;
- ▶ Intermediaries subject to a fiduciary standard;
- ▶ Intermediaries required to disclose conflicts of interest; and
- ▶ Media that reports on mutual funds and does so in an environment where unbiased, critical reporting is promoted.

Choice can be measured by the number of distribution channels from which funds may be purchased. Potential distribution channels include banks, insurers, full-service brokerages, discount brokers, independent financial advisors, direct sales from a fund company, and online fund platforms. Some countries, such as the U.S., have strong competition and wide availability across all channels. While other countries are limited to fewer channels, the vast majority in this study had access to three or more.

While many channels may be available, there is a clear pattern when it comes to identifying distribution choices that dominate the fund marketplace. In 22 of 25 countries, banks and insurance companies are named as one of the dominant fund sales channels. The next highest, with seven, is the independent advisor. The dominance of bank and insurance companies has not, however, led to closed architecture platforms. In 11 of 25 countries, Morningstar estimates that more than 80% funds are sold through an open architecture system—a distribution system where investment options come from multiple fund companies. There are six markets where this is estimated to be less than 20% of sales—Belgium, Denmark, Finland, Norway, Spain, and Thailand. There, the markets are characterized by relatively narrow distribution, but there is an increasing trend toward more open architecture.

**Exhibit 16** Market Concentration



Source: Morningstar, Inc.

It is beyond the scope of this report to measure the degree of openness in “open architecture”; however, in Morningstar’s experience, platforms available through banks and insurance companies tend to have fewer fund choices and a list that favors funds associated with the distributor. In contrast, traditional and discount brokers and independent advisors tend to offer large fund lineups.

An additional perspective on the relative openness of a market is the concentration of that market. More-open markets will tend to have more firms and less concentration, creating more choice for investors and advisors. As a proxy for this, we analyzed the Morningstar database to count the number of firms offering mutual funds domiciled in each market and the number of funds offered by each firm and then calculated the percentage of funds offered by the 10 largest firms. Before reviewing the numbers, there are two important points. First, the number of firms can include multiple names from the same parent but offered through different entities. This increases the numbers but not materially. Second, this is a count of funds, not assets, which tends to lower the percentage weights presented. We will continue to develop this measure for future studies.

The U.S. is the largest market and also has the lowest concentration at 20%, meaning the top 10 firms offer 20% of the funds. In the April 2015 edition of the Morningstar Direct U.S. Asset Flows Update, the top 10 firms by assets accounted for 58% of the market. China, the U.K., and France also have markets where a large number of funds are being provided by many participants.

At the other end of the scale, the top 10 firms tend to dominate fund issuance in Belgium, Singapore, and Norway. The overall size of a market will influence the market share of the top 10 firms, and this, in part, is reflected in these numbers. It is also interesting to note that both Belgium and Thailand were markets with relatively low usage of open architecture systems.

Investment minimums for a fund or for a platform of funds remain common for retail investors; however, there continues to be growing flexibility in the way these minimums are applied. Only five countries in the report have strict investment minimums that are not waived or reduced—albeit some of these minimums are very low. Most markets cite minimums that can be waived or reduced, thereby permitting a broad range of investors to qualify. Morningstar believes the impact of technology in bringing down client-administration costs coupled with custodial platforms that can aggregate transactions are two factors eroding the importance of minimum investments. Lower-cost institutional funds will still enforce relatively high minimums.

The main sources of conflicts of interest come when financial advisors receive payments for selling funds and the payments are not known by the investors. Examples include bonuses for increasing the general level of sales over a particular time period (thereby encouraging the churning of accounts), bonuses for selling a particular fund, or the encouragement from management to sell funds that come from the company that employs the advisor. Morningstar finds that these practices and sales contests to increase the general level of sales by advisors continue to exist but to a lesser extent

through either prohibition or tighter controls. There are six markets where these practices are not allowed. In nine, it is allowed but under strict supervisions. The remainder report there is little practical oversight of the practices. One of the most recent developments has been in Singapore where, under the Financial Advisory Industry Review (FAIR), the remuneration of financial advisors is required to be done under a balanced scorecard approach as opposed to pure sales measures.

Another sales consideration is whether advisors are required to act in the interest of the investors ahead of themselves (that is, act as a “fiduciary”). Fortunately, this exists to some extent in all markets within this study, but the extent of the duty does vary between markets. The U.K.’s Retail Distribution Review program (RDR) and Australia’s Future of Fund Advice (FOFA) program both place additional requirements on advisors. In the U.S., Registered Investment Advisers are held to a fiduciary standard, but funds can also be sold by licensed brokers, who are held to a lower suitability standard.

The media’s treatment of funds is an important, although often overlooked, element of the investor experience. If the fund industry is regularly and widely covered, investors will have greater confidence that the nation’s funds are a mainstream investment and that it is safe for them to own funds. Thus, regular and frequent media coverage of funds is a best practice. So, too, is emphasizing the importance of costs and of long-term performance. Media reports that focus on personalities and short-term performance leaders are not helpful. In addition to educating investors, a strong independent media voice can help to hold an industry to account.

In 11 of the GFIE’s 25 countries, the major financial media covers funds or the fund industry daily, with another 11 reporting at least weekly stories. Only in Norway, Singapore, and Sweden is the fund industry only irregularly covered by the mass media.

For this study, The World Press Freedom Index has been incorporated into the assessment of media. As mentioned above, the media can have a large influence on the practices of an industry. The more independent the voice of media, the more likely investors will benefit from this coverage either directly or indirectly.

The World Press Freedom Index has been published every year since 2002 by Reporters Without Borders, an international nonprofit organization registered in France that defends freedom of information and has consultative status with the United Nations and UNESCO.

The aim of the index is to measure freedom of information in 180 countries. It reflects the degree of freedom that journalists, news media, and netizens (Internet citizens) enjoy in each country and the efforts made by the authorities to respect and ensure respect for this freedom. It should not be seen as an indication of the quality of the media in the countries concerned.

The index ranks the Nordic countries high in addition to other European countries, Canada, and New Zealand. Markets such as China, India, Singapore, and Thailand rank toward the bottom of this index. A full list can be found at <http://index.rsf.org/#!/index-details>.

# Country Summaries

## Exhibit 17 Index of Countries

Country	Page #		Overall Grade / Change		Regulation and Taxation		Disclosure		Fees and Expenses		Sales and Media	
	Summary	Detail										
Australia	23	48	<b>B-</b>	↑	D	↓	D+	=	A	↑	A-	↑
Belgium	24	55	<b>C</b>	↓	B-	=	C	↓	C	=	B	↑
Canada	25	60	<b>C+</b>	=	C	↓	A-	↑	D-	↑	B	↓
China	26	66	<b>D+</b>	↓	B-	↑	C+	↓	D+	↓	C-	↓
Denmark	27	71	<b>B-</b>	=	B-	↑	B	=	B	↑	C-	↓
Finland	28	76	<b>B-</b>	★	B-	★	B	★	B-	★	C	★
France	29	81	<b>C</b>	↓	B-	=	C-	↓	C+	↓	C+	=
Germany	30	86	<b>C+</b>	↓	C+	↓	C+	↓	C	↓	B	↑
Hong Kong	31	90	<b>C</b>	↑	B	↓	C	↑	D+	↓	B+	↑
India	32	95	<b>C+</b>	↓	B-	=	C+	↓	B-	↓	B-	↑
Italy	33	101	<b>C-</b>	↓	B-	↑	C	↓	C	↑	C	↓
Japan	34	106	<b>C-</b>	↓	B	=	C	↓	D+	=	B-	=
Korea	35	111	<b>A</b>	↑	A-	↑	B	=	B+	↑	B	↓
Netherlands	36	116	<b>A-</b>	↑	C+	↓	C+	↓	A	↑	B	=
New Zealand	37	122	<b>C+</b>	↑	C	=	C+	↑	B	↑	C+	↓
Norway	38	127	<b>B-</b>	=	B	↑	B-	=	B-	↓	C-	↓
Singapore	39	132	<b>C</b>	↓	B+	↓	C-	↓	C-	↓	B	↑
South Africa	40	137	<b>C</b>	↑	C+	↓	D+	↑	B	↑	C+	↑
Spain	41	142	<b>C</b>	↓	B-	↓	C+	↓	B-	=	C-	↑
Sweden	42	147	<b>B</b>	↑	C+	↑	B+	↑	B	=	C	=
Switzerland	43	152	<b>B-</b>	=	B-	↓	C+	↓	B-	=	B	↑
Taiwan	44	157	<b>A-</b>	↑	C+	↓	A	↑	D+	↓	A-	↑
Thailand	45	162	<b>C+</b>	↓	B-	↓	B-	=	C+	↓	C	↑
United Kingdom	46	168	<b>B+</b>	↑	B	↓	C+	=	B	↑	A-	↓
United States	46	168	<b>A</b>	=	C-	↓	A	=	A	=	B-	↓

Source: Morningstar, Inc.

# Australia

## Overall Grade

**B—**

Area	Grade
Regulation and Taxation	D
Disclosure	D+
Fees and Expenses	A
Sales and Media	A—

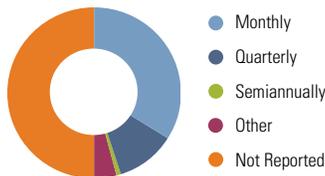
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 56

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%
Fixed-Income	0.58
Equity	1.18
Allocation	0.82
Money Market	0.40

## Sales and Media

Funds Reporting Front Loads % 15

Australia's overall grade is an average B—, which is one step ahead of 2013's C+. Investors in Australia enjoy low costs, which are a major benefit, and have good sales and media practices. The country's weak disclosure practices and high tax rates are two major drawbacks and offset some of the strengths in fees.

Australia scores below average in Regulation and Taxation. Investors in Australia suffer some of the highest investment taxes of any country in the survey. It is one of only a handful of countries in which capital gains are passed through to fund investors annually, rather than deferred, and accumulated in the gains in the fund share price. Fund investors also pay consumption taxes on the service of investment management. In the area of regulation, we observe that Australia regularly updates regulations but that not all regulatory sanctions are disclosed to the public.

Australia has major problems with disclosure. Critically, investors do not have access to the very basic item of portfolio holdings. Australia is the last country in this survey without any form of regulated portfolio disclosure implemented. Proposed legislation that would lead to holdings disclosure for superannuation funds has been delayed, and hopes that the same disclosure requirements soon would apply to open-end funds are dwindling. Encouragingly, managers voluntarily provide Morningstar with portfolio data on approximately half the managed funds listed on our database, with the data provided monthly for approximately 34%. Also, Australia's product disclosure statement misses some marks as a simplified prospectus. The document lacks standardized returns and poorly describes the investment strategy. Lastly, portfolio manager information is nowhere to be found in the disclosure. In this respect, Australia is no worse than many countries, but it is still an area for improvement.

Australia fares very well with respect to fees and expenses. Australian equity, allocation, and fixed-income funds are some of the least expensive globally, with only the much larger United States charging consistently lower expense ratios. Money market funds fare worse and are higher than the global average.

Australia's sales and media practices are strong. Open-architecture platforms with funds from a variety of sponsors dominate fund sales in Australia, but there is a full variety of fund sales channels available for investors. We estimate that more than 80% of purchases come from a sales channel offering open or guided architecture. Future of Financial Advice (FOFA) regulations place a fiduciary standard on advisors, requiring advisors to place investors' interests ahead of their own. This protection is stronger than that found in most of the world.

# Belgium

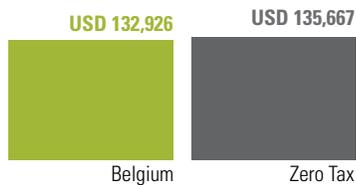
## Overall Grade

C

Area	Grade
Regulation and Taxation	B-
Disclosure	C
Fees and Expenses	C
Sales and Media	B

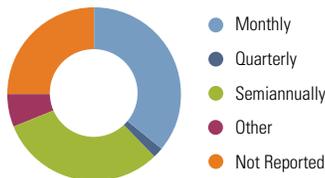
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 107

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.22	1.16
Equity	1.30	1.90
Allocation	1.10	1.43
Money Market	0.51	0.33

## Sales and Media

Funds Reporting Front Loads % 87

Belgium’s overall grade is a C. Investors in Belgium face relatively low taxes. Voluntary portfolio holdings disclosure is an area where the fund industry could improve investors’ experiences.

Belgium’s regulations are consistent with the pan-European rules that are coming out of Brussels nearly annually. Morningstar finds that while the changes are generally positive, there has been some sentiment that they are sometimes too frequent for fund companies and investors to fully understand prior to implementation. Belgium scores a tad above average when it comes to taxation. Belgium’s taxes on dividends and income are higher than average, but they are offset by an exemption on taxes for capital gains on shares held more than one year.

Belgium is mostly in line with world averages on required disclosure, but investors would be better served by more-frequent voluntary portfolio disclosures so that investors can evaluate managers’ specific decisions. Most fund managers’ names are now provided voluntarily, but another possible area in which Belgium can improve to benefit its investors is in fund costs disclosures. Currently, Belgium does not require a monetary illustration of fund costs that would allow novice investors to convert ratios into euro terms and easily see how much they are paying for services.

Belgium receives a C in Fees and Expenses because of the generally slightly above average costs of locally available-for-sale equity and money market funds. There is a much larger investment universe of funds available for sale in Belgium because of Europe’s single market for investment products, but pan-European products tend to be more costly than local funds. Morningstar has observed that most advisors in Belgium are compensated through asset-based commissions, either up front or through ongoing charges. It is important that investors have choices in how they compensate advisors, and it is especially important for investors to have the option of avoiding embedded ongoing charges. Unfortunately, it remains nearly impossible for investors in Belgium to locate and purchase funds that do not have embedded advice fees in a trailing or up-front commission, and it remains a key area for possible improvement.

Belgium receives a B in the area of fund Sales and Media practices. A negative factor affecting this grade is the closed architecture of the Belgian market. Banks and insurance companies dominate the sales of funds, and these companies tend to offer proprietary funds. The grade benefits from high press freedom, as well as the protections of the Markets in Financial Instruments Directive (MiFID).

# Canada

## Overall Grade

C+

Area	Grade
Regulation and Taxation	C
Disclosure	A-
Fees and Expenses	D-
Sales and Media	B

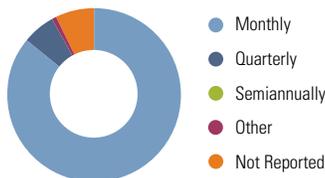
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 45

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%
Fixed-Income	1.51
Equity	2.35
Allocation	2.16
Money Market	0.60

## Sales and Media

Funds Reporting Front Loads % 4

Canada scores an overall grade of C+. Positively for fund investors, sales and media practices are above-average, and disclosure is very good. Unfortunately, these benefits are offset by fund costs that are very high.

Canada is slightly below average in Regulation and Taxation. In the Canadian Tax-Free Savings Account (TFSA), investors are allowed to save specific amounts tax-free. This counteracts taxes that do not otherwise favor mutual fund earnings over other income. For taxable accounts, Canada is one of just a few countries that requires funds to pass through realized capital gains annually. This practice effectively treats fund investors similarly to investors in vehicles like stocks where the individual (as opposed to the fund manager) has control over reaping capital gains. Most countries encourage diversified savings through mutual funds by deferring fund gains, and sometimes income, until funds are sold. Also, unlike more than half the countries in this survey, Investors in Canada pay full consumption taxes on the service of asset management. Much like the United States, foreign funds do not receive automatic registration in Canada and are rarely available to investors. These practices diminish competition within the fund industry.

Disclosure in Canada is very investor-friendly. Although Canada falls short of best practices by publishing full portfolio holdings semiannually rather than quarterly, disclosure practices are otherwise positive. Expense information is clear and comprehensive, including five years of expense history and a monetary illustration of each fund's costs. Unlike many countries in this survey, Canada requires that funds divulge the names of their portfolio managers, although currently it does not require that their length of tenure be given.

Canada scores poorly in Fees and Expenses, with its results behind every country in this survey. Canada's method for computing fund expenses is the global standard, and its distribution model of financial advisors selling and servicing funds that are typically sold without a front end load is widely shared (only five markets indicate unbundled fee arrangements as typical). It is also common for investors to negotiate certain elements of their fees with advisors, thus lowering fees relative to the posted rates, but no information is available to quantify how prevalent negotiated fees are or how material the reduction is for an average investor.

Investors in Canada experience above-average sales and media practices. Sales contests and favored compensation of particular funds is strictly regulated to maintain the salesforces' independence. The media in Canada emphasizes long-term investing and will nearly always mention high fund costs. Furthermore, minimum initial investments are low.

# China

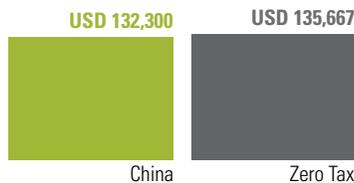
## Overall Grade

**D+**

Area	Grade
Regulation and Taxation	B-
Disclosure	C+
Fees and Expenses	D+
Sales and Media	C-

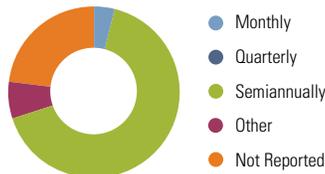
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 91

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%
Fixed-Income	0.89
Equity	1.76
Allocation	1.76
Money Market	0.63

## Sales and Media

Funds Reporting Front Loads % 66

China's overall grade is D+, which is the lowest within the survey. China's most attractive feature is its comprehensive disclosure. The main drawbacks for Chinese fund investors are fees and restrictiveness.

China earns an average grade in the area of Regulation and Taxation. While positive steps are being taken to open the market at the time of conducting this study, China had no provision for foreign-domiciled funds to apply for sale within China. Additionally, Chinese investment funds need permission to invest assets overseas, and limits generally accompany this permission. The China Securities Regulatory Commission (CSRC) and Hong Kong's Securities and Futures Commission (SFC) recently announced an agreement on the Mainland-Hong Kong Mutual Recognition of Funds (MRF) initiative. The MRF is due to be implemented on July 1, 2015.

Chinese disclosure is generally thorough. Chinese funds report quarterly, with good discussions by managers of their funds' performances. Positively, Chinese funds provide both the name and tenure of the fund's portfolio manager. In 2010, China launched a website that contains a comprehensive collection of fund literature. The major drawback to Chinese disclosure is that China does not calculate official fund expense ratios, although the individual expense components are itemized.

While China does have regulations around the disclosure of component costs it does not extend to a standard annualized calculation of fund expense ratios as found in other markets. As a result investors can struggle to compare total costs effectively. Even research firms like Morningstar can interpret this information incorrectly. In a past study, we misrepresented a number of factors in calculating the expense ratio. Correcting this error materially increased expense ratios for Equity and Allocation funds and resulted in China's fees placing amongst some of the highest in this survey. China's grade on Fees and Expenses was a D+, down from B- in 2013, which was the primary factor in China's overall below-average grade.

Sales and media practices are mixed. On the one hand, the investor-unfriendly behavior of sales contests and favored compensation for the sale of particular funds are permitted with moderate oversight. So too is the practice of directed brokerage, by which a fund steers its trades toward a brokerage firm that helps to sell its shares. On the other hand, minimum required investments of Chinese funds are very low. Also, fund distribution in China is dominated by open-architecture distribution, so that investors generally have the opportunity to choose between many different fund companies. The emergence of third party online fund platforms is also a positive trend. There is frequent media coverage of funds in China however, China scores well below peers in the 2015 World Press Freedom Index.

# Denmark

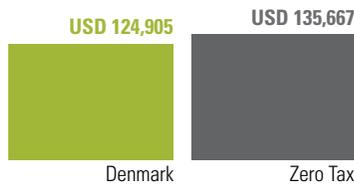
## Overall Grade

**B-**

Area	Grade
Regulation and Taxation	B-
Disclosure	B
Fees and Expenses	B
Sales and Media	C-

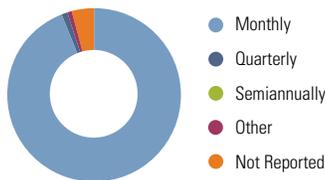
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 23

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.73	Fixed-Income 1.05
Equity	1.54	Equity 1.82
Allocation	0.84	Allocation 1.43
Money Market	0.30	Money Market 0.15

## Sales and Media

Funds Reporting Front Loads % 94

Denmark earns an average score of B-. Danish regulations and tax policies are about average when compared with those of other countries in this survey. Fees and Expenses and Disclosure score slightly above average. The weakest area for Denmark is Sales and Media.

Investors in Denmark benefit from pan-European regulations and guidelines. One example is the requirement within MiFID that alternative brokerage arrangements, (also known as soft-dollar arrangements) can only be used if they benefit the fund owners (rather than other purposes such as entertainment, or general benefits to the management company). With regard to taxes, investors in Denmark face high rates on interest and dividends annually. These contribute to making Denmark's tax environment one of the least investor-friendly in the report.

Denmark's B grade in Disclosure reflects its general conformity with pan-European standards, with some slight improvements. One area in which Denmark-domiciled funds do excel is in the voluntary disclosure of portfolio holdings. Nearly 95% of funds managed in Denmark exceed regulatory requirements in providing investors and research firms with full portfolio holdings on a monthly basis and with reasonably quick turnaround times following portfolio month-end dates to boot. Firms provide fund manager names and tenures to Morningstar with a high rate of frequency despite no requirement for them to do so.

Denmark has a slightly above-average grade of B in Fees and Expenses. The annual expense ratios for funds domiciled in Denmark are noticeably lower than those for foreign funds marketed to investors in Denmark. Regulations do not prevent asymmetrical performance fees (that is, charging performance fees with no offsetting reductions in fees for underperformance), but this is also typical within the report. Almost all funds compensate selling agents for advice via front loads and trailing commissions, and, per the structure of the funds, this occurs even when no advice was actually given.

Denmark receives a C- in Sales and Media. The Danish fund market is characterized by closed architecture: Most funds are sold through the bank and insurance company channel and are proprietary to the firm selling them, thereby limiting choices for investors. Denmark ranks very high on the World Press Freedom Index, and Danish funds have been heavily discussed in the media in the past couple of years.

# Finland

## Overall Grade

B–

Area	Grade
Regulation and Taxation	B–
Disclosure	B
Fees and Expenses	B–
Sales and Media	C

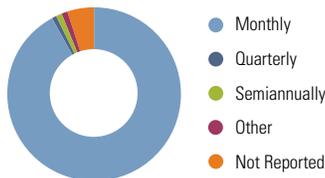
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 23

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.65	1.24
Equity	1.61	1.90
Allocation	1.21	1.45
Money Market	0.30	0.12

## Sales and Media

Funds Reporting Front Loads % 69

Finland receives an overall grade of B– in its 2015 debut in this survey. The grade is held down by sales and media practices slightly below industry norms.

Finland scores about average in Regulation and Taxation, reflecting general adherence to pan-European regulations. For example, although soft-dollar arrangements are an accepted practice, the Markets in Financial Instruments Directive (MiFID) requires that these be used for the benefit of investors and also be disclosed. However, detailed disclosure may not be readily available to investors in Finland. Finland's tax environment is among the least investor-friendly in the survey, but investors do have access to accumulating share classes that defer taxes until the liquidation of share holdings.

Finland's B grade in Disclosure reflects its general conformity with pan-European standards, including use of the short-form Key Investor Information Document (KIID). Finland ranks among leaders in this survey for percentage of locally domiciled funds voluntarily disclosing portfolio holdings. While regulations support the disclosure of full portfolio holdings to the general public semiannually, a high percentage of funds managed in Finland provide this information on a monthly basis and in a timely fashion. Information about fund managers is more readily available in Finland than in some other markets; names are quite frequently provided and start date or tenure is sometimes provided. Investors may request information about fund managers' investments in their own funds.

Finland scores about average in Fees and Expenses. Aside from money market funds, locally domiciled funds tend to be much cheaper than the total set available for sale in Finland. Regulations do not prevent asymmetrical performance fees, where investors are charged only for outperformance without similar fee reductions in the case of underperformance, but this is also typical of most countries in this report. Regulations require disclosure in this area so that the charges should be clear to investors. While a popular retail brokerage house began waiving loads in 2013, it remains to be seen whether investors switch their purchase patterns en masse; today, the majority of retail fund investors purchase through the dominant bank channel where loads are still charged.

Finland ranks below average in this survey in sales and media practices because of low scores in sales distribution practices. Less expensive homegrown funds have little competition in this smaller market, with the majority being offered by the top 10 firms through banks. The market is characterized by closed architecture, leaving clients with a limited choice of funds.

# France

## Overall Grade

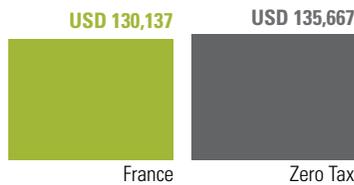
C

Area	Grade
Regulation and Taxation	B-
Disclosure	C-
Fees and Expenses	C+
Sales and Media	C+

France’s overall grade is C. France earns demerits for its lack of portfolio holdings disclosure to the public.

## Regulation and Taxation

Growth of USD 100,000

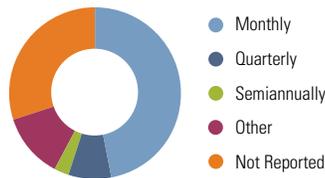


France scores a B- in Regulation and Taxation. Soft-dollar arrangements are very rare and must be disclosed, discouraging potential conflicts of interest for funds. Other regulations are in line with the norm, as France adheres to UCITS rules and other pan-European regulations.

France fares poorly in Disclosure; non-UCITS French funds are not required to provide full disclosure of portfolio holdings to the public. In contrast, most countries in this report adhere to the norm of providing full public disclosure of holdings at least semiannually. French funds do, however, disclose holdings fully to the regulator. In practice, almost half of French funds voluntarily provide monthly portfolios to Morningstar, but another 30% provide none, even annually. As with other countries in the European Union, France requires funds to provide a Key Investor Information Document (KIID). The KIID does well in some areas, such as providing a clear explanation of risks, disclosing returns for standardized periods, and adhering to the required maximum length of two pages. However, the KIID does lack potentially helpful information, such as a monetary illustration of fees and manager names and tenures.

## Disclosure

Portfolio Holdings Disclosure Frequency %



In general, fees and expenses are relatively unremarkable for both locally domiciled and foreign-domiciled funds. However, investors typically pay financial-advice fees through commissions or retrocessions. Funds without trailers are available in France but constitute only a small part of investor assets. Funds without front loads are widely available, but most carry retrocessions to compensate for advice. Additionally, France follows common practice in allowing funds to charge performance fees without an offsetting reduction for underperformance. Furthermore, the terms of the performance fees are not always disclosed clearly in fund documents.

Average Portfolio Release Lag (Days) 90

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.77	Fixed-Income 1.07
Equity	1.65	Equity 1.81
Allocation	1.63	Allocation 1.65
Money Market	0.29	Money Market 0.15

France is average in Sales and Media. As with other countries subject to pan-European regulations and guidelines, France prohibits the practice of directed brokerage. Unfortunately, advisors receiving excess compensation for selling specific funds to investors is a common practice through kick-off commissions. The French market is characterized by a somewhat limited but adequate mix of distribution channels. The media in France only sometimes promotes long-term investing or mentions fund costs, which is typical globally.

## Sales and Media

Funds Reporting Front Loads % 86

# Germany

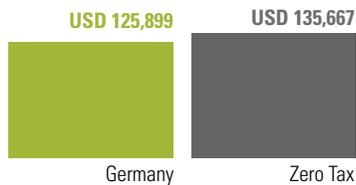
## Overall Grade

C+

Area	Grade
Regulation and Taxation	C+
Disclosure	C+
Fees and Expenses	C
Sales and Media	B

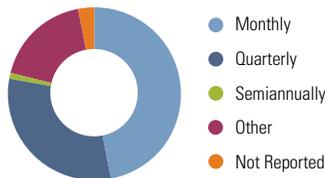
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 63

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.76	1.06
Equity	1.44	1.81
Allocation	1.54	1.63
Money Market	0.27	0.15

## Sales and Media

Funds Reporting Front Loads % 85

Germany's overall grade is a C+. Germany scores slightly below average in all sections except Sales and Media.

Germany's C+ for Regulation and Taxation reflects its general adherence to pan-European regulations. Following the general practice of most European countries, soft-dollar arrangements (with the caveat that they must be disclosed) are allowed in Germany. As is common across the survey, Germany requires funds to have a supervisory board, but it could improve by instituting a minimum level of independence for board directors. Another area of possible improvement for Germany is its taxation policies. In the report's hypothetical fund performance and tax scenario, Germany has one of the lowest aftertax returns because of its relatively high tax rates and the lack of exemptions and deferrals available in other countries. Additionally, while there are tax incentives to invest for retirement, the choices for these investments are limited and not as varied as options without tax incentives.

Germany scores similarly in Disclosure also partly reflecting typical pan-European practices and use of the Key Investor Information Document (KIID). The KIID is a concise two pages, is written in clear language, and provides an explanation of risks that are specific to the fund. The KIID could be improved by the addition of portfolio holdings, trading costs, and manager names and tenure. As in most countries in the survey, funds in Germany are required to disclose holdings semiannually, but in practice nearly half voluntarily disclose monthly, albeit on about a two-month lag. Fund companies also quite commonly report portfolio manager names.

Germany's fees and expenses are fairly average for locally domiciled funds and funds available for sale. Funds without loads or trailing commissions exist but are difficult for investors to locate, and they make up a minimal percentage of assets. Germany allows asymmetrical performance fees that charge more for overperformance without an accompanying reduction in fees for underperformance—typical, but not investor-friendly. However, it is helpful for investors that the terms of performance fees are at least disclosed clearly in fund documents, and the overall structure of performance fees has improved with provisions such as loss carryforwards enacted via rounds of legislative improvements during the past five years.

Germany scores slightly above-average in Sales and Media. Like many countries, Germany prohibits advisors from receiving excess compensation for selling specific funds. Unfortunately, Germany does break from the norm in that less than 50% of funds in Germany are sold through an open-architecture system.

# Hong Kong

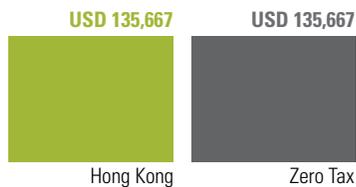
## Overall Grade

C

Area	Grade
Regulation and Taxation	B
Disclosure	C
Fees and Expenses	D+
Sales and Media	B+

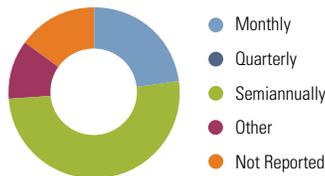
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 119

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.96	Fixed-Income 1.40
Equity	1.52	Equity 1.90
Allocation	1.69	Allocation 1.69
Money Market	0.48	Money Market 0.18

## Sales and Media

Funds Reporting Front Loads % 71

Hong Kong's fund industry delivers a below-average experience to investors, which is an improvement since our last survey. Morningstar's overall grade of C for Hong Kong reflects above-average investment costs and poor disclosure practices. The absence of virtually any taxes on fund investments offsets some of these weaknesses.

Regulation and Taxation is a strong area for Hong Kong, with a grade of B. Hong Kong's virtually nonexistent taxes on fund investments greatly contribute to the above-average grade in this section. Another plus is that Hong Kong's government is effective at updating regulations and keeping up with changes in the fund industry. Hong Kong's fund industry is governed by multiple regulators who work closely together in areas of mutual interest. Hong Kong does have regulations to increase retirement savings; however, the scope of investment options available within these schemes is more limited.

Hong Kong's disclosure practices have improved substantially since 2013, which improved its grade from D- to C. The product Key Fact Statement provides point-of-sale information to investors in a concise manner, and it now includes past performance figures and standardized reporting on ongoing charges. Hong Kong's disclosure is closer to the norm in other areas such as portfolio holdings, which are disclosed on the typical semiannual basis. There are still a few key areas that could be improved. Unlike most other countries, Hong Kong does not institute the same disclosure requirements for mutual funds and other types of funds. Hong Kong fund documents also provide little information about managers.

Hong Kong receives a D+ in Fees and Expenses. This is not surprising, given that the price of funds available for sale in Hong Kong, as measured by expense ratios, is higher than in many countries. While locally domiciled funds generally have lower expense ratios, these funds make up a small percentage of the total market, and investors must usually choose from expensive, foreign-domiciled funds. In addition, most advice fees continue to be paid through the combination of front loads and trailing commissions. Furthermore, investors do not have the flexibility to forgo these loads and trailing commissions altogether even when purchasing funds without advice.

When it comes to sales and media, Hong Kong allows some aggressive sales practices but these are typically subject to tight regulations. On a more positive note, Morningstar has noted more recent mentions in the media of long-term investing and the impact of high fees. The China Securities Regulatory Commission (CSRC) and Hong Kong's Securities and Futures Commission (SFC) recently announced an agreement on the Mainland-Hong Kong Mutual Recognition of Funds (MRF) initiative. The MRF is due to be implemented on July 1, 2015.

# India

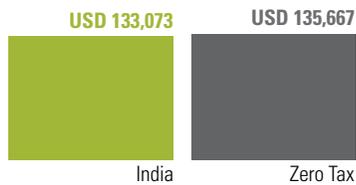
## Overall Grade

C +

Area	Grade
Regulation and Taxation	B-
Disclosure	C+
Fees and Expenses	B-
Sales and Media	B-

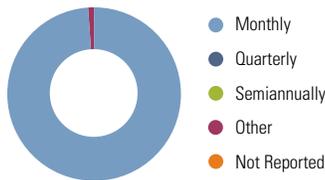
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 11

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%
Fixed-Income	0.53
Equity	2.65
Allocation	2.38
Money Market	0.18

## Sales and Media

Funds Reporting Front Loads % 0

With an overall grade of C+, India has a mix of outstanding practices and others that fail to meet global standards.

India does not particularly stand out in Regulation and Taxation. The local fund association advocates ethics rules that soft-dollar arrangements be used toward the fund’s research rather than for other purposes, such as entertainment. While this guidance in India does not have the force of law, regulations allowing soft-dollar arrangements while mandating that they be used toward research are typical within this survey. More unusually, India is one of only a handful of countries in this survey that continues to have capital controls limiting investors’ ability to invest in foreign securities.

Disclosure in India has a few outstanding features but is lacking in other areas. On the outstanding side, funds in India provide investors with full holdings on a monthly basis rather than the typical semiannual basis. India is one of only two countries that hold this distinction. Furthermore, the point-of-sale documents are usually kept to a concise length and include portfolio manager names. Investment strategies and risks found in fund documents, however, are typically generic and provide little useful information. We expect the grade in this section to improve in our next study as Indian regulators will require, beginning in July 2015, funds to report clearly delineated risk levels within the offering documents.

India’s funds are notable for the lack of any upfront asset-based commissions, and this helps raise India’s grade in Fees and Expenses. India also prohibits funds from charging performance fees, which is commendable and atypical among the countries in the survey. Unfortunately, Indian funds still have average to expensive expense ratios overall for equity and allocation funds. We find it surprising that equity and allocation funds have asset-weighted expense ratios above 2%.

Sales and Media practices in India are about average. Investors in India can choose from a variety of different distribution channels, and more than 80% of funds are sold through an open-architecture system. Advisors in India do not have to compare equivalent products or look at client suitability in order to meet fiduciary standards. Although this is unhelpful for the investor, it is also fairly typical among the countries in the report. The media in India have failed historically to help in increasing financial literacy, rarely promoting long-term investments and seldom mentioning fees when they are high. However, this is improving as regulations now require fund companies to set aside 0.02% of daily fund assets for investor awareness and education.

# Italy

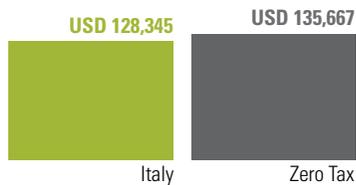
## Overall Grade

C-

Area	Grade
Regulation and Taxation	B-
Disclosure	C
Fees and Expenses	C
Sales and Media	C

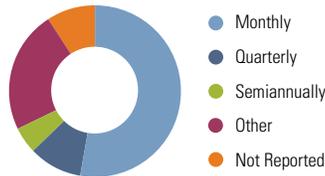
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 64

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	1.09 Fixed-Income	1.15
Equity	2.31 Equity	1.86
Allocation	1.58 Allocation	1.65
Money Market	0.36 Money Market	0.15

## Sales and Media

Funds Reporting Front Loads % 43

Italy receives a below-average overall grade of C-, posting consistent but below-average grades in every section of the study.

Italy scores about average in Regulation and Taxation. Recent regulatory changes allow fund investors access to accumulation share classes, which defer taxes on capital gains and income until the investor liquidates shares. Investment income is taxed at rates distinct from other types of income, and lower rates apply to “White List” government-bond holdings. While on par with tax treatment in many European countries, taxes reduce the typical investment return in Italy by a larger amount than in two thirds of the other countries in this survey.

Italy’s disclosure meets all of the pan-European minimum standards. These include providing the relatively informative, two-page Key Investor Information Document (KIID) for all funds and updating shareholder reports on a semiannual basis. Italian funds are required to disclose all material positions in the full portfolio semiannually, and about half of funds provide monthly portfolios on a significant lag—a middle-of-the-road experience versus many countries in the survey. Although not required, Italian funds disclose manager names nearly 100% of the time, but manager investment in fund shares is not provided.

Funds in Italy receive a grade of C for Fees and Expenses, reflecting the high costs on average of locally domiciled fixed-income and equity funds. Following the practice common in most of the countries surveyed, Italy allows funds to charge performance fees with no offsetting fee reduction for underperformance but also requires funds to disclose the terms of the fee in fund documents.

Italian sales and media practices also receive a C grade. Italy is compliant with all relevant Markets in Financial Instruments Directive (MiFID) regulations, which help prevent many sales abuses. Investors in Italy can buy funds from a variety of sales channels, but advisors unattached to large financial institutions and direct purchases from the fund company remain rare. Although press freedom in Italy is rated lower than in other European countries, investors in Italy can find articles on fund investing on a daily basis.

# Japan

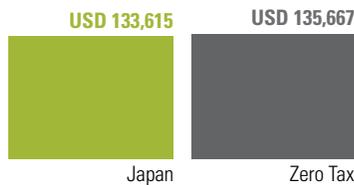
## Overall Grade

C-

Area	Grade
Regulation and Taxation	B
Disclosure	C
Fees and Expenses	D+
Sales and Media	B-

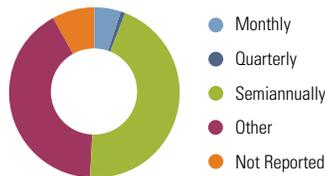
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 103

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	1.51	1.51
Equity	1.65	1.65
Allocation	1.40	1.40
Money Market	0.59	0.26

## Sales and Media

Funds Reporting Front Loads % 81

Japan’s overall grade is a below-average C-. Japan has about average regulation and taxation policies, disclosure requirements, and sales and media practices. Relatively high fees and expenses depress Japan’s overall grade.

Japan has a mix of both good and bad Regulation and Taxation policies, with a slightly above-average section score. Foreign funds are easily available to investors, and funds are not restricted in where they can invest geographically. Japan’s taxes score slightly better than average despite the rate of Value-Added Tax (VAT) applied on investment services increasing to 8% from 5% since 2013. Notable improvements in regulation since our last study include the launch of the Nippon Individual Saving Account (a deferred investment account for retirement) and revised regulations of the Act on Investment Trusts and Investment Corporations that became effective in 2015.

The country also has a mix of good and bad practices when it comes to disclosure. Japan’s simplified prospectus is missing some key elements important for investors, such as fund performance and a clear explanation of fund-specific risks. At a typical length of five to 10 pages, the simplified prospectus fails to meet best practices for conciseness. Japan does follow best practices for disclosure in other areas, such as requiring annually updated prospectuses and presenting trading costs in other fund literature. While funds in other countries typically provide only semiannual reports, Japan is particularly noteworthy in that it is the only country where funds typically provide monthly shareholder reports.

Fees and expenses in Japan are some of the highest in the survey when compared with funds available for sale in other countries. Over 75% of funds domiciled in Japan report a front load. There is also limited availability of funds with no loads or trail commissions for Japanese investors. The fact that funds are permitted to charge performance fees for good performance (with no offsetting fee reduction for underperformance) also has a negative impact on the overall grade for the section.

Japan follows average sales and media practices. More than 80% of funds in Japan are sold through an open-architecture system, which allows investors to have a variety of choices when purchasing funds. However, Japan also allows advisors to receive excess compensation for selling specific funds, which could set up a conflict of interest that prevents advisors from recommending funds that are most appropriate for investors. Fund costs and long-term investing are sometimes noted in the Japanese media.

# Korea

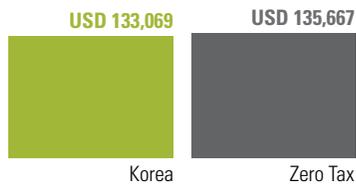
## Overall Grade

A

Area	Grade
Regulation and Taxation	A-
Disclosure	B
Fees and Expenses	B+
Sales and Media	B

## Regulation and Taxation

Growth of USD 100,000

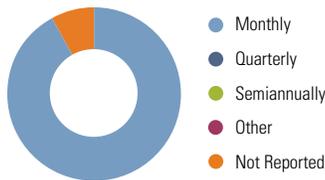


Korea’s overall A grade reflects above-average practices in each of the areas of this study, but there are still areas in which the investor experience could be improved. For example, Korea could improve disclosure by requiring full publication of portfolio holdings to the public and increase investor choice by encouraging diversity of sales channels.

Korea’s highest grade is in Regulation and Taxation. Investors in Korea benefit from fund regulations that are updated in a timely manner, and the government enforces these regulations effectively. Soft dollars must be used for research, although the research may be indirect and not specifically tied to an individual fund. Korea also fares moderately well on taxes; there are no capital gains taxes on passive investments in Korea.

## Disclosure

Portfolio Holdings Disclosure Frequency %



Korea posts a slightly above-average grade in Disclosure. One strong feature is a monetary illustration of fees, which is generally provided in simplified prospectuses, even though that feature is not required. Portfolio manager information is also typically provided, and regulations now require tenure data, which was not the case in our previous study. Korea could improve by providing holdings to the general public quarterly rather than providing full holdings to the regulator and only top holdings to the public.

Average Portfolio Release Lag (Days) 66

Fees and expenses are somewhat better for investors in Korea than in other parts of the world. Investors in Korea generally do not face any performance fees. Few funds report charging front loads, but most advisors are still compensated generally through trailing commissions embedded in expense ratios. Locally domiciled fixed-income and allocation funds tend to have lower annual expense ratios than funds in other domiciles.

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.41	1.39
Equity	1.60	1.83
Allocation	1.05	1.38
Money Market	0.15	0.15

Korean sales and media practices have also improved since 2013 with the launch of the online fund supermarket, which offers funds with lower commissions and fees. Large financial institutions dominate fund sales, and while most offer funds from multiple providers, advisors at these institutions often have biases toward in-house funds. To offset the issue, regulators instituted a fund sales regulation that limits sales of funds provided by integrated asset management companies to less than 50% of total sales.

## Sales and Media

Funds Reporting Front Loads % 11

# Netherlands

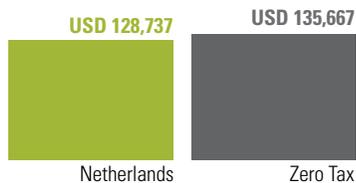
## Overall Grade

A-

Area	Grade
Regulation and Taxation	C+
Disclosure	C+
Fees and Expenses	A
Sales and Media	B

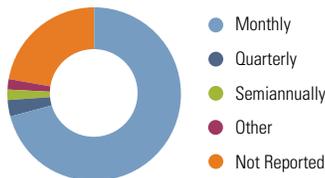
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 54

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.50	Fixed-Income 1.12
Equity	0.80	Equity 1.76
Allocation	1.11	Allocation 1.49
Money Market	0.35	Money Market 0.15

## Sales and Media

Funds Reporting Front Loads % 59

With an overall grade of A-, investors in the Netherlands have an investment experience that is better than most other countries in this survey. The overall grade is buoyed by an increased Fees and Expenses grade of A that results primarily from the Netherlands' investor-friendly move to ban retrocessions.

Taxes in the Netherlands are not particularly favorable to investors. Dutch taxes are unique within the survey: All property above an exempted amount is assumed to earn a stated return (currently 4%), and individuals pay taxes on that estimate rather than calculating actual capital earnings. All in all, investors in the Netherlands had an aftertax return lower than that of most countries in a hypothetical tax scenario conducted by Morningstar for this report.

Dutch Disclosure receives a C+. Most asset managers report monthly fund portfolios on a lag, typical of many countries in the survey, but only material long positions are required. An unhealthy number of funds do not report holdings at all, shirking the semiannual regulatory requirement. Dutch funds almost always provide the name of the portfolio manager despite there being no requirement for it. Additionally, fund boards disclose their coinvestment beside shareholders. The Netherlands is one of only two countries that disclose any management stake in the fund, and Dutch funds are very helpful to investors in this respect.

Fund fees and expenses in the Netherlands have greatly improved following a ban on rebates to advisors that took effect at the beginning of 2014. These commission-free share classes help rank the average fees for locally domiciled fixed-income and equity funds as among the lowest in the survey. Foreign funds sold in the Netherlands tend to be much more expensive than local funds, however, with the exception of money market funds.

Sales practices in the Netherlands are regulated by Markets in Financial Instruments Directive (MiFID), and this directive goes far in preventing the most egregious sales practices from happening in countries belonging to the European Union. As a plus for investors, more than 80% of funds in the Netherlands are sold by a distributor offering multiple fund sponsors. Investors in the Netherlands enjoy a high degree of press freedom and can find mutual fund articles in their newspapers on a weekly basis.

# New Zealand

## Overall Grade

C+

Area	Grade
Regulation and Taxation	C
Disclosure	C+
Fees and Expenses	B
Sales and Media	C+

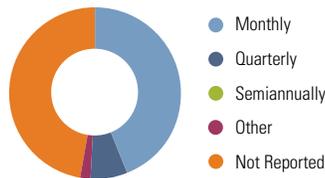
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 42

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.64	0.64
Equity	1.46	1.57
Allocation	1.41	1.41
Money Market	0.63	0.63

## Sales and Media

Funds Reporting Front Loads % 37

New Zealand’s grade improvement from previous studies stems from ongoing changes in regulation and disclosure. While a C+ is average, there have been encouraging expansions on disclosure requirements, and the government’s active, collaborative approach deserves credit. The largest securities law overhaul since 1978, the Financial Markets Conduct Act (FMC Act), provides investors with many desirable improvements in fund disclosure.

Despite a below-average C grade, New Zealand is improving in Regulation and Taxation. The improvements within this portion of the study are keeping pace with improvements in other countries included in this study. In the retirement sector, the government has been more aggressive about changing regulations and improving legally required disclosures. New Zealand’s tax structure can be quite complex on the surface because fund companies assess taxes on distributions prior to disbursing them to the investor. In the end, however, the total tax burden for New Zealand fund investors is quite low; the absence of most capital gains greatly reduces investors’ tax burdens.

New Zealand has made significant strides in improving disclosure, which resulted in an improved grade of C+ in this year’s study compared with a D in 2013. The FMC act mandates a register to which security issuers must post ongoing information about their securities, including semiannual full portfolio holdings updates. Previously, there was no obligation on managers to provide data on their holdings at all. A short-form Product Disclosure Statement (PDS) and an even shorter-form Key Information Document (KID) with strict word limits are designed to allow investors to quickly identify important characteristics of funds, minus all the wordy distractions. There is still ambiguity about fee disclosures for New Zealand funds, leaving room for further disclosure improvements.

New Zealand’s B grade in Fees and Expenses is a result of both positives and negatives. New Zealand has a wide spectrum of foreign-domiciled funds registered for sale in New Zealand, and these tend to be more expensive than the homegrown variety. Costs for locally domiciled funds are in line with or slightly below the global average, except for money market funds, which are more expensive. Funds without loads or trail commissions are widely available to New Zealand investors but do not represent a large portion of investor assets.

New Zealand gets an average grade of C+ in Sales and Media. Investors have a full spectrum of sales channels through which they can purchase funds, and the dominant sales channel is characterized by broadly open architecture. However, our analysts note that activity within the advisor space is losing share to banks with fewer offerings from multiple providers.

# Norway

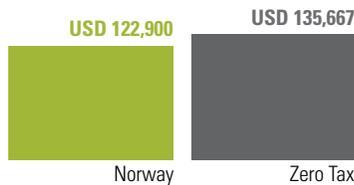
## Overall Grade

**B-**

Area	Grade
Regulation and Taxation	B
Disclosure	B-
Fees and Expenses	B-
Sales and Media	C-

## Regulation and Taxation

Growth of USD 100,000



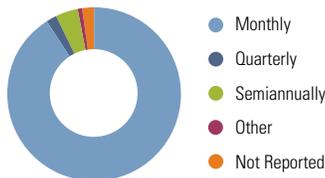
Norway’s grade of B- is average within this survey. Norwegian investors face some fairly negative issues like relatively high taxes but also some more-positive experiences like access to timely portfolios. Sales and Media constitutes a weak area for Norway.

Norway gets a B in Regulation and Taxation despite taxes that take a big bite out of returns. High rates lower aftertax returns, and Norway also charges additional wealth taxes, though wealth tax rates have recently come down while exemptions have gone up. Further rate cuts may be on the horizon. An additional positive is that investors can manage the timing of their taxes by deferring taxes on dividends and capital gains until the sale of fund shares.

Norwegian disclosure is average overall and could be improved upon, but there are bright spots here, too. Norway ranks among the leaders in this survey for timely portfolio disclosure on a monthly basis with little lag in reporting, a best practice. There is room for improvement in portfolio-manager disclosure, however. It is voluntary and only sometimes provided by a minority of funds.

## Disclosure

Portfolio Holdings Disclosure Frequency %



Fees and expenses are a bit of a mixed bag. Excluding AIFMD funds, Norwegian funds are only permitted to charge fulcrum performance fees, which penalize underperformance proportionately to rewarding outperformance. Morningstar considers this practice to be fairer to the investor than simply charging extra fees for outperformance, which is the case for most countries in this survey that allow performance fees. Annual expense ratios for funds available to investors in Norway range from high for equity funds to low for locally domiciled fixed-income funds.

Average Portfolio Release Lag (Days) 17

The lowest grade for Norway is in Sales and Media. Norwegian fund companies tend to offer only in-house funds. Morningstar estimates that less than a fourth of fund sales are through companies offering open architecture. This limits the ability of investors in Norway to choose from a wide variety of funds. Finally, the media in Norway rarely mentions high fund costs and only sometimes promotes long-term investing.

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.50	1.31
Equity	2.00	1.90
Allocation	1.12	1.49
Money Market	0.40	0.15

## Sales and Media

Funds Reporting Front Loads % 48

# Singapore

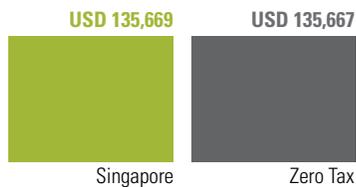
## Overall Grade

C

Area	Grade
Regulation and Taxation	B+
Disclosure	C-
Fees and Expenses	C-
Sales and Media	B

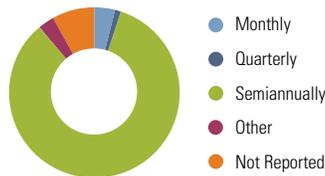
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 107

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.79	Fixed-Income 1.39
Equity	1.73	Equity 1.90
Allocation	1.43	Allocation 1.69
Money Market	0.50	Money Market 0.27

## Sales and Media

Funds Reporting Front Loads % 88

Singapore places toward the middle of the group in this survey with an overall grade of C. While there are no major weaknesses, Singapore is more expensive than other markets in this study and disclosure practices have room for improvement, specifically around portfolio holdings disclosure. Singapore received the second-highest grade for Regulation and Taxation.

Singapore receives a B+ in Regulation and Taxation. The absence of taxes on mutual fund investments is a feature of Singapore shared by few other markets—although input services to a fund are subject to sales tax. Singapore has an active regulator that has established a broad set of requirements designed to protect investors. Where sanctions are required, they are typically reported publicly. Regulations also protect investors from funds using soft dollars for nonresearch benefits.

Singapore’s disclosure requirements provide many of the basics, but there are areas where more investor-friendly outcomes can be achieved. Instead of a single Key Investor Information Document (KIID) or simplified prospectus, investors receive a packet containing a Product Highlight Sheet and a fact sheet. This packet has much of the information found in simplified prospectuses around the world, but not all. There is no requirement for funds to provide monetary examples of fees. Singapore’s portfolio holdings disclosure requirements are similar to many markets, but the actual practice of managers reporting portfolios falls behind many in the study. Similarly, there is limited management commentary on performance for investors.

Singapore’s Fees and Expenses also have room for improvement. Investors in Singapore continue to predominantly pay for advice through front loads or ongoing expenses embedded in expense ratios. Investors don’t often have the choice to avoid these fees, and this leads to a low level of transparency around the cost of advice. Domestic funds tend to be cheaper than those available for sale from foreign jurisdictions; however, both groups show higher fees than the median for the study.

Investors in Singapore have a decent experience when it comes to sales practices. Morningstar observes that more than 80% of funds are sold through intermediaries offering funds from multiple providers. There are requirements for advisors to disclose conflicts of interest, and they are also subject to fiduciary duty tests. The Financial Advisory Industry Review (FAIR) is being implemented over the coming year and will further regulate remuneration for financial advisory representatives using a “balanced score card” approach, not just relying on sales. Media coverage of managed funds is relatively limited, and Singapore also scores below peers in the 2015 World Press Freedom Index.

# South Africa

## Overall Grade

C

Area	Grade
Regulation and Taxation	C+
Disclosure	D+
Fees and Expenses	B
Sales and Media	C+

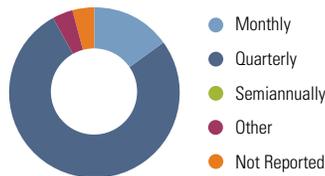
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 48

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.64	0.83
Equity	1.43	1.85
Allocation	1.63	1.63
Money Market	0.57	0.57

## Sales and Media

Funds Reporting Front Loads % 28

South Africa's overall below-average grade of C is an improvement over past years but represents a market that still lags global standards. Regulators have introduced improvements under the Retail Distribution Review, which applied starting in May 2015, that improve disclosure rules.

The experience of the investors in South Africa in Regulations and Taxation is a mix of good and bad policies, earning South Africa a score of C+. Large tax exemptions and tax rates that can often be lowered in practice bring taxes on investments down to a level much lower than stated rates would indicate. Unfortunately, South African capital controls restrict funds from investing more than a certain percentage in foreign assets, ultimately limiting choices for investors.

South Africa has several disclosure issues that lead to a poor rating, but recent improvements have raised its grade slightly. Beginning in 2015, a Minimum Disclosure Document (MDD) acts as the point-of-sale reference material. The MDD, which will be updated quarterly, replaces the application form as the reference document and contains useful information regarding the objective, risks, and fees of the fund. South Africa lags behind the global standard in other disclosure practices as well. Holdings are only available upon request, and this information is not always shared in an effective manner once requested. That said, Morningstar receives holdings information for more than 95% of funds we track, and more than 90% of those funds report holdings at least quarterly.

Fees and expenses in South Africa balance out to receive a slightly above-average grade of B. With proper disclosure of the relevant terms, funds are allowed to charge performance fees that reward managers for outperformance without an accompanying fee reduction for underperformance. This practice, while unhelpful for investors, is typical within the survey. In practice, our analysts note that advisory fees can be poorly disclosed and thus push the overall fee experience for investors to levels higher than most other markets. Unfortunately, data is unavailable for us to quantify the result in this study.

Sales practices in South Africa are overseen by the Financial Services Board (FSB) via the FAIS Act and firms should have conflict of interest policies in place to ensure compliance and disclosure. Regulations put out by the FSB have strengths and weaknesses. There are strict limits on payments and gifts that could cause a conflict of interest between advisors and their clients, but unfortunately this restriction only applies to independent sales channels. Fund brokers tied to a closed channel can receive incentives for selling additional funds. Large financial institutions account for more than half of fund sales, which translates to a greater number of advisors selling in-house products rather than presenting their clients with all possible choices.

# Spain

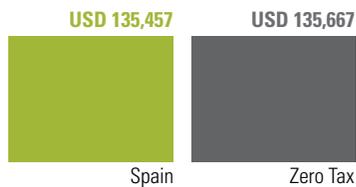
## Overall Grade

C

Area	Grade
Regulation and Taxation	B-
Disclosure	C+
Fees and Expenses	B-
Sales and Media	C-

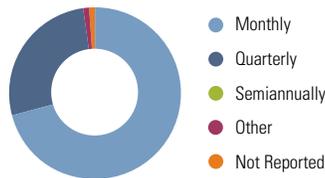
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 49

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.85	Fixed-Income 1.10
Equity	2.01	Equity 1.82
Allocation	1.34	Allocation 1.56
Money Market	0.60	Money Market 0.12

## Sales and Media

Funds Reporting Front Loads % 15

Spain's overall grade is a C. Spain's average score in Fees and Expenses is a bright spot, with Sales and Media practices receiving a lower score.

Spain's Regulation and Taxation score is average. Through UCITS, investors in Spain have access to funds domiciled and invested in a variety of countries and also benefit from UCITS regulations. Soft-dollar arrangements are also required to be disclosed, and pan-European guidelines and regulations require them to be used for research. Investors in Spain saving for retirement, however, invest through a separate pension system where choices are more limited and the benefits of UCITS regulations do not apply. Still, Spain has one of the most investor-friendly tax policies in the survey. Tax incentives and the availability of exemptions or deferrals in certain situations give fund investors a large tax break.

Spain has good disclosure practices when it comes to portfolio holdings, requiring funds to disclose holdings on a quarterly basis rather than on the semiannual basis that is typical. Even better, more than two thirds of funds exceed the regulatory requirement and report portfolios on a monthly basis. Like other countries in the European Union, Spain requires funds to provide a Key Investor Information Document (KIID). The KIID has a mix of both good and bad practices. On the positive side, the KIID provides a clear explanation of risks in a standardized format that makes comparisons across KIIDs simpler for investors. The KIID also contains fund performance and stays at a manageable length of two pages. On a less positive note, the KIID lacks trading costs and manager information. Furthermore, the section of the KIID describing the fund's strategy is not always clear and specific enough to help investors fully understand the fund's investment objective.

Fees and expenses in Spain are about average in comparison to other countries in the survey. Slightly higher-than-average expense ratios for locally domiciled equity funds are offset by slightly lower-than-average expense ratios for fixed-income and allocation funds. Spain allows funds to charge performance fees without making an offsetting reduction in fees for underperformance. However, the terms of the performance fee are stated clearly in fund documents.

Spain scores lower in Sales and Media practices. The Spanish media almost never mention fund costs when they are high and only sometimes promotes long-term investing. Less than 20% of the funds sold in Spain are sold through an open-architecture system, which is much lower than other countries in the survey, though this is slowly improving. Funds in Spain also have strict investment minimums and do not waive a significant portion of them for automatic investment plans, but these minimums are generally very low.

# Sweden

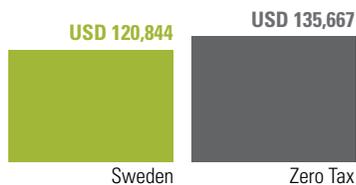
## Overall Grade

**B**

Area	Grade
Regulation and Taxation	C+
Disclosure	B+
Fees and Expenses	B
Sales and Media	C

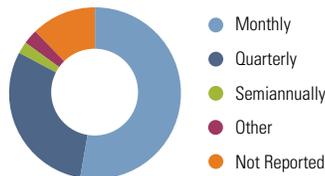
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 24

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.70	Fixed-Income 1.24
Equity	1.56	Equity 1.83
Allocation	1.60	Allocation 1.50
Money Market	0.30	Money Market 0.13

## Sales and Media

Funds Reporting Front Loads % 14

Sweden's grade of B places it squarely within the top half of this study, producing solid scores across most areas. Disclosure practices are strong and fees and expenses for investors in Sweden also contribute positively. Taxation in Sweden is expensive despite rules allowing fund investors to defer taxation.

Regulation and Taxation receives a C+, mainly because Swedish investors pay some of the highest taxes of any investors in this survey. Despite boons, such as deferral of capital gains taxation until liquidation of fund shares, the high rates eat into Swedish investors' returns significantly. Sweden can also improve regulations by introducing additional independence into the governance structure of funds.

Sweden's Disclosure grade is above average, but there is room for improvement. The Key Investor Information Document (KIID), which is required for all funds in Sweden, has many good features but is lacking in others. Since its switch to the KIID from the previous simplified prospectus, Sweden no longer requires funds to include a monetary illustration of fees—converting ratios into actual monetary amounts. More positively, Sweden, unlike many countries, requires the disclosure of portfolio managers' names. Portfolio holdings disclosure practices are also strong, with information provided monthly for approximately half of the funds (against a quarterly regulatory requirement) and data received within a month of period-end.

Sweden scores above average for Fees and Expenses. Investors in Sweden have the opportunity to invest in both domestic and foreign UCITS funds. Investors who choose to stick with locally domiciled funds tend to pay a little less in expense ratios than investors who buy the many foreign funds available in Sweden. Swedish investors have access to a wide range of funds without loads or trailing commissions, and the overall number of funds displaying a front load is also relatively low. While not explicitly assessed, it is worth noting that there are large discounts available on fund fees where funds are available on platforms designed for compulsory pension contributions.

Investors in Sweden typically purchase funds through banks and insurance companies, an increasing number of which have started offering external funds. We now estimate that open-architecture distribution sales channels are used more than half the time. A number of sales practices could also be strengthened, including the fiduciary duty of an advisor to the investor, better disclosure of conflicts of interest, and controls over advisor remuneration structures. Morningstar finds that the main financial media discuss mutual funds regularly, and Sweden ranks highly on the World Press Freedom Index.

# Switzerland

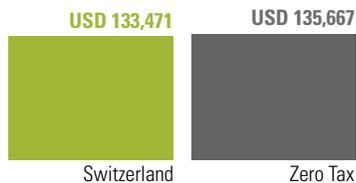
## Overall Grade

B-

Area	Grade
Regulation and Taxation	B-
Disclosure	C+
Fees and Expenses	B-
Sales and Media	B

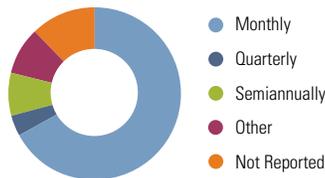
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 105

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.80	Fixed-Income 1.06
Equity	1.32	Equity 1.73
Allocation	1.30	Allocation 1.50
Money Market	0.20	Money Market 0.15

## Sales and Media

Funds Reporting Front Loads % 81

With a grade of B-, investors in Switzerland have an average experience when compared with the rest of the world.

In Switzerland, regulation is prescribed by law via the Collective Investment Schemes Ordinance, and regulator FINMA provides supervision. Although not a European Union country subject to UCITS or Markets in Financial Instruments Directive (MiFID) mandates, Switzerland has aligned its regulation to EU standards and subsequently garners an average grade in this area. Swiss funds are not limited with regard to where they can invest geographically, and foreign-domiciled funds are easily available (as is typical among the countries in the survey). Additionally, serious enforcement actions by the Swiss industry regulator are made public, and the rules governing the fund industry are kept up to date. While the Swiss tax experience can vary greatly depending upon where one lives within Switzerland, the lack of capital gains taxes means that investors still face a lower burden than in most countries.

Swiss funds' Disclosure grade has slipped slightly with the implementation of the Key Investor Information Document (KIID) document. A majority of Swiss funds go beyond typical disclosure by supplying investors with monthly portfolio holdings (a best practice, and some disclose portfolio manager names to all investors rather than to just professionals and institutional investors). However, the lag in reporting portfolios could be greatly improved.

An average grade in Fees and Expenses reflects the fact that Swiss investors face expense ratios and fee practices that look like most of the rest of the world. Funds based in Switzerland are quite a bit cheaper than foreign funds with rights to sell in Switzerland. Like many other countries, Switzerland could improve by making funds without loads or trailing commissions more accessible to investors, as they currently make up a minimal percentage of total investor assets.

Switzerland remains typical in sales practices. Major financial institutions dominate fund sales, but independent advisors are available. Morningstar finds that the media in Switzerland does not focus enough on long-term investing in its articles about funds. The media also tends to ignore high costs, which have been empirically shown to be a strong predictor of a fund's future performance.

# Taiwan

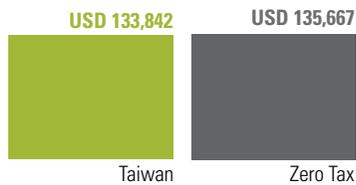
## Overall Grade

A-

Area	Grade
Regulation and Taxation	C+
Disclosure	A
Fees and Expenses	D+
Sales and Media	A-

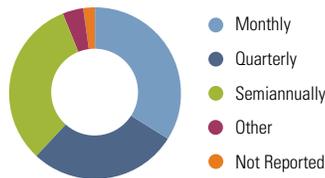
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 24

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	1.36	Fixed-Income 1.46
Equity	1.76	Equity 1.83
Allocation	1.33	Allocation 1.67
Money Market	0.20	Money Market 0.21

## Sales and Media

Funds Reporting Front Loads % 95

Taiwan's overall grade is an above-average A-. Taiwan has excellent taxation policies and generally beneficial disclosure requirements and sales and media practices. Taiwan's overall grade is brought down by high fund costs.

Taiwan's regulations are good, but taxation is where the country really shines. Taiwan has one of the most favorable tax policies in the survey. There are no taxes on capital gains, and there are tax incentives for investing in the public pension fund, although these incentives are not available for ordinary mutual funds. Taiwan keeps up with the rest of the world in terms of regulations but rarely exceeds the norm. Sanctions on individual funds are usually disclosed publicly, and foreign funds are made easily available to investors. Taiwan does go beyond the norm by banning soft-dollar arrangements altogether, even though most countries allow soft-dollar arrangements as long as they are used toward research.

Taiwan's disclosure is slightly better than that of most other countries, but requiring quarterly disclosure of full portfolio holdings brings it up a notch. Funds also disclose manager name and tenure information, which puts Taiwan above many countries in this report. Taiwan's simplified prospectus is concise at four pages or less. The simplified prospectus also contains key information such as a historic expense ratio and a section clearly explaining the strategy and objective of the fund. Despite these positives, Taiwan could still improve by requiring shareholder reports to be updated semiannually (as is the norm within this report) rather than annually.

Taiwan scores below average for Fees and Expenses. Fees for funds available for sale to investors in Taiwan are among the highest in the survey. It is difficult for investors in Taiwan to invest in funds without loads or trailing commissions, in fact Taiwan has the highest reported instance of front loads on funds in this study. Certain fund types are allowed to charge an asymmetrical performance fee wherein higher fees for outperformance are not offset by a similar fee reduction for underperformance.

Sales practices in Taiwan have a number of important pillars in place. Directed brokerage, or sending trade transactions to a specific firm in exchange for directed trades, is prohibited in Taiwan for the benefit of the investor. Likewise, advisors are no longer allowed to have accelerating volume bonuses (sales contests). More than 80% of funds are sold through an open-architecture system, and the variety of distribution channels is helpful for the investor. The media in Taiwan is average, somewhat promoting long-term investing and sometimes noting fund costs when they are high.

# Thailand

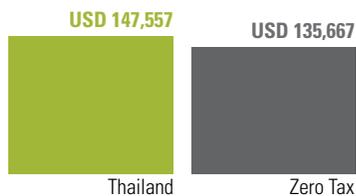
## Overall Grade

C+

Area	Grade
Regulation and Taxation	B-
Disclosure	B-
Fees and Expenses	C+
Sales and Media	C

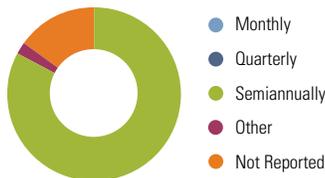
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 101

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%
Fixed-Income	0.44
Equity	1.83
Allocation	1.35
Money Market	0.49

## Sales and Media

Funds Reporting Front Loads % 46

Thailand's overall grade is a C+. Investors in Thailand enjoy favorable tax policies and benefit from solid disclosure requirements. Thailand's fees and expenses are slightly below average, as are sales and media practices, which offset some of the strengths in other sections.

With favorable policies such as tax exemptions on capital gains and a tax credit for investment in long-term (five years or more) equity investments, Thailand fares the best in this survey when it comes to taxation. The tax credit, in particular, is a boon to investors and results in an aftertax return even higher than the pretax return in Morningstar's hypothetical tax scenario calculated for all countries in the survey. Regulations in Thailand are not as strong in a relative sense, bringing the overall grade in this area down to a B-. Thailand is one of the few countries that place restrictions on funds investing in foreign securities. Foreign funds are rarely available to Thai investors; however, since 2014, it is now easier for investors in Thailand to be offered funds issued in Singapore and Malaysia.

Thailand is average on disclosure. Simplified prospectuses have been overhauled to be more applicable and easier to understand. They are required to pertain to only one fund at a time and have been reduced from around 20 pages to two to four pages. The simplified prospectus also includes more valuable information than it contained in 2013. All funds must disclose full holdings, report fund fees in a uniform format, and also provide the name and tenure of the portfolio manager. Thailand also requires that shareholder reports be updated at least semiannually and offering memoranda be updated annually, and regulations will require in 2015 that holdings be reported quarterly. Improved portfolio holdings requirements will start to be implemented during third-quarter 2015, and we expect this component to improve markedly for the next study.

Thailand scores slightly below average in Fees and Expenses in part because of the limited availability of funds without loads or trailing commissions. Although the practice is not technically banned, no Thai fund is known to charge asymmetrical performance fees. Expense ratios are above average for Thai equity and money market funds, but investors enjoy very low fees in comparison to other countries in the survey for fixed-income funds.

Thailand has below-average sales and media practices, with less than 20% of funds being sold through an open-architecture system (most countries in the survey sell more than 80% of their funds through open architecture). Funds are mostly sold through banks, and investors can only purchase funds through a limited number of distribution channels. Media outlets in Thailand provide regular coverage of mutual funds; however, Thailand scores below peers in the 2015 World Press Freedom Index.

# United Kingdom

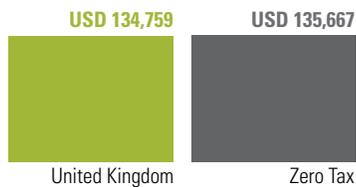
## Overall Grade

**B+**

Area	Grade
Regulation and Taxation	B
Disclosure	C+
Fees and Expenses	B
Sales and Media	A-

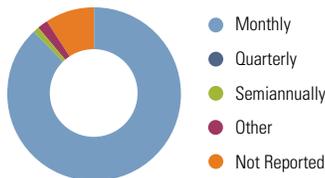
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 69

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	1.05	1.11
Equity	1.65	1.75
Allocation	1.43	1.50
Money Market	0.40	0.12

## Sales and Media

Funds Reporting Front Loads % 52

The United Kingdom's overall grade is an above-average B+. Great Britain is weakest in the area of disclosure and strongest in sales practices. The weight to Sales and Media increased in this year's survey to 25% from 15% previously, driving some of the increase in the overall grade.

A slightly above-average grade in Regulation and Taxation reflects the U.K.'s fairly typical regulation and taxation policies. As a member of the European Union, the U.K. can give investors access to UCITS-compliant funds from elsewhere in Europe. Additionally, UCITS regulation ensures that all EU members meet minimum standards in certain regulatory areas. The U.K. scores well in taxation. Deferring capital gains taxes until sale of shares (typical within this survey), large annual capital gains exemption, and relatively low tax rates on dividends and interest contribute to U.K. investors paying less in taxes than investors in many other countries in the survey.

The U.K.'s Disclosure score remains unchanged versus the previous survey. Prior to the introduction of the Key Investor Information Document (KIID), the U.K. required that simplified documents contain illustration of fees in monetary terms. This illustration was helpful to investors, allowing them to see fees in context (as opposed to a stand-alone percentage), but it is not provided in the KIID. While the KIID does provide investors with comprehensive disclosure with key information in a standardized format, it is not written in the investor-friendly question-and-answer format of the former British simplified prospectus reviewed in 2011.

The U.K.'s most improved area is Fees and Expenses, reflecting implementation of the U.K. fund regulator's Retail Distribution Review (RDR). Among other reforms, the RDR bans advice fees from being bundled with fund expenses. Reported ongoing charges have fallen in most asset classes since the new distribution rules have taken effect.

The U.K. grade in Sales and Media slipped slightly but is still the highest grade awarded for any country. Investors have a full spectrum of sales channels to choose from, and the dominant sales channel is characterized by open architecture. It is estimated that more than 80% of fund sales in the U.K. are through an open-architecture distributor. RDR also requires that advisors consider all comparable investments when making a recommendation, and this protection is stronger than that found in almost any other country.

# United States

## Overall Grade

**A**

Area	Grade
Regulation and Taxation	C–
Disclosure	A
Fees and Expenses	A
Sales and Media	B–

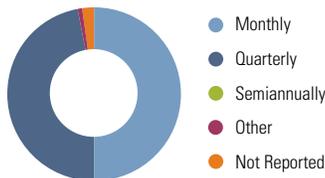
## Regulation and Taxation

Growth of USD 100,000



## Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 35

## Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%
Fixed-Income	0.59
Equity	0.84
Allocation	0.61
Money Market	0.14

## Sales and Media

Funds Reporting Front Loads % 15

The United States receives an overall grade of A. U.S. fund investors pay lower expense ratios than investors in any other country on average. U.S. disclosure also gets an A thanks to frequent portfolio reporting and greater transparency for management and fees alike. On the other hand, the tax regime is relatively poor and aspects of the sales environment also trail best practice.

The U.S. fares badly in Regulation and Taxation, with a grade of C–. U.S. investors have multiple regulators overseeing the fund industry, which can lead to confusion. Unlike other markets, there is no requirement that soft dollars be used exclusively for the benefit of the fund. Additionally, while U.S. tax rates are average, the reduced reinvestment caused by the annual taxation of income earned within the fund results in lower aftertax returns than are seen in most other markets.

Investors in the U.S. have more disclosure at their fingertips than anywhere else in the world. For example, funds must publish the managers' names and tenures in the prospectus. The Securities and Exchange Commission in the U.S. also requires funds to submit a Statement of Additional Information that contains information such as managers' compensation and investment in the funds they manage. Offering documents in the U.S. contain a monetary illustration of fees, which allows investors to easily see how much they would pay hypothetically in dollar amounts. Morningstar notes that, while portfolio holdings disclosure is mandated to be quarterly, around half of the funds provide data monthly and well within the maximum lag.

U.S. funds get an A in Fees and Expenses. The asset-weighted expense ratios of a typical fund in the U.S. represent some of the lowest in the world. Fees are lower because of economies of scale, as well as price competition across open-end mutual funds and increasingly from exchange-traded funds. Typically, management fees contain breakpoints that reduce fees above set asset levels. On the other hand, the U.S. is one of a handful of markets in which it is common to pay for advice outside of the annual expense ratio. This transparency helps investors see how much they pay for advice and reduces the possibility of a recommendation bias caused by a higher commission. It is unclear whether this reduces investors' total cost.

In the area of Sales and Media, the U.S. receives a grade of B–. Unlike most markets, higher commissions as inducements for selling specific funds are permitted in the U.S. provided they are disclosed. While registered investment advisors are held to a fiduciary standard, funds are also sold by licensed brokers who have a lower suitability standard for advice. The media in the U.S. report regularly on mutual funds, paying attention to costs and long-term investing more frequently than do the media in other countries.

# Country Details

# Australia

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## Regulation and Taxation

In Australia, the Australian Securities and Investments Commission (ASIC) is the regulator of corporate markets and financial services. Its duties include “registering corporations, keeping up-to-date information about them, and making that information available to the public; regulating conduct and disclosure by corporations and their officers; regulating corporate fundraising, mergers and acquisitions, and insolvencies; and regulating financial services, financial products, and financial markets.”

Mutual funds (also known as unit trusts in Australia) structured as superannuation or pension funds are also regulated by the Australian Prudential Regulation Authority (APRA), which oversees superannuation (retirement) assets and the banking and insurance industries. Fund advertising and sales practices are also regulated by ASIC and APRA. The Financial Services Council (FSC, formerly IFSA), a trade organization that represents the retail and wholesale funds management, superannuation, and life insurance industries, plays a significant role in imposing standards and guidelines for participating members.

The laws that govern the investment industry are the Financial Services Reform Act 2001 and the Managed Investments Act 1998. ASIC’s policy statements are published in its Regulatory Guide. The laws that govern the superannuation industry are the Superannuation Industry (Supervision) Act 1993, the Superannuation Industry (Supervision) Regulations 1994, the Retirement Savings Accounts Act 1997, and the Retirement Savings Accounts Regulations.

While there are multiple laws that apply to the investment industry, ASIC is responsible for developing specific regulation regarding public investment funds from the power granted in these statutes. ASIC is the main regulator for retail mutual funds, but other regulators, including APRA, have overlapping responsibilities for competing products. There are occasional situations where regulations come into conflict. For example, superannuation funds have separate holdings disclosure requirements that do not apply to nonsuperannuation funds under APRA. This results in situations where the legal type of the product will determine investment and disclosure rules that are not identical for funds managed similarly using another legal structure. The industry is making attempts to harmonize some of these disclosures. Regulations are somewhat up-to-date, but they can be delayed and only partially address known problems. Enforcement is comprehensive; recent changes include actions to govern high-frequency trading and dark pools, as well as the Future of Financial Advice (FOFA) reforms. Some enforcement actions are public, but publication of regulatory actions against a fund is released on a case-by-case basis. The regulation and supervision of fund advertisements are perceived as effective and prevent misleading or deceptive fund promotions.

All countries in this survey, including Australia, require funds to be audited by an independent party at least once a year. In Australia, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two organizations can be subsidiaries of the same parent company. The ASIC Regulatory Guide requires that the duties of custodial staff be appropriately segregated from the duties of other employees, and custodial staff should not report to groups responsible for investment, marketing, or operations.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. Soft-dollar arrangements are an accepted practice in Australia, and funds with these arrangements are required to disclose them. FSC members must follow ethics guidelines in accepting soft-dollar benefits. These guidelines impose a fiduciary duty on members and require that all benefits serve the specific group of investors generating the soft dollars. Requiring that these benefits be specific to the group of investors generating the benefit is a better deal for investors than we see in most markets. Additionally, FOFA introduces a ban on most soft-dollar arrangements for advisors who work with retail clients.

All mutual funds must have a single responsible entity (SRE) in accordance with the Managed Investments Act 1998, whose responsibility is to operate the fund in the best interests of the unitholders. The SRE can be either external or internal (the same as the manager). If the SRE does not have a board comprising a majority of independent directors, it must have a compliance committee. The duties of the SRE or the independent compliance committee are limited to monitoring the SRE's compliance with the fund's constitution, the law, and the compliance plan.

In Australia, there is no limitation on funds investing in securities issued in foreign countries.

Australia allows offshore funds from New Zealand and Hong Kong to register for sale in the Australian fund market, but foreign funds are still rarely available to typical investors. The typical investor effectively has little choice to invest in funds from outside Australia.

Taxation of fund investors in Australia provides incentives to invest for retirement. Investments in superannuation funds receive favorable tax treatment compared with other fund investments in Australia. The details of the tax savings are complex and vary depending on various factors of an investor's income and investment status. Fund choices are identical to investments in funds not following superannuation regulations, but disclosure regulations are different for standard and tax-advantaged funds.

Australia is one of only a handful of countries that tax interest income; dividends and realized capital gains are distributed and taxed on an annual basis. Interest income, dividends, and short-term capital gains are taxed at the same marginal income tax rate as earned income, but investors get a

“franking credit” for corporate taxes paid on dividend distributions. This dividend imputation removes double taxation of dividends and results in a much lower effective tax rate on domestic dividends. Long-term capital gains are taxed at half the marginal income tax rate, and these are in effect after one year of ownership. Australia does not have a wealth tax or securities transaction tax applied to fund ownership. In Australia, our hypothetical investment with a 6.29% annualized pretax return has an aftertax return of 4.90%, which amounts to a reduction of 1.39% annually.

Most goods and services in Australia are subject to Goods and Services Tax (GST). It is common practice for this tax to be aggregated with other management costs and not itemized. While this tax increases the cost of fund management, the full impact is lessened by the availability of input tax credits for the funds.

### Disclosure

In Australia, the offering documents are known as Product Disclosure Statements (PDS). In 2011 and 2012, ASIC began requiring shorter-form PDS for many investment and savings products. There are quite a few features of PDS that make them investor-friendly, including: a limit of one fund per document; a limit of eight pages total; specific section headings in specific order for ease of reading and comparison; and key content requirements. Disappointingly, ASIC exempts certain funds managed by a single management firm or on a superannuation platform from the single—fund-per-document requirement. These changes effectively simplify and standardize content for ease of use as a primary point-of-sale document. But because many investors gain access to funds through platform groups, it is still common for investors to receive documents of up to eight pages each for a dozen or more investment funds. While these are required to have key investment information, our analysts observe that the investment strategy section is not specific enough for them to easily categorize funds. Additionally, they see that investment risks, while explained clearly, are general to all investment funds and not specific to the risks that the manager is undertaking to earn returns.

The Expense Ratio (ER) within PDS is a prospective ER without historical context, but it is accompanied by a numerical example that illustrates the total expenses an investor could expect to pay on an investment. The standardized example is based on a balance of AUD 50,000 and an AUD 5,000 contribution during the year. The contribution fee (for example, AUD 0 to 200) and the management fee (for example, AUD 800) are shown, and a total amount is provided. The expense disclosure is generally good, but in other areas the PDS is missing information useful for investors. The document does not show trading costs in any manner; these main expenses faced by investors are not part of the ER. There is no requirement for incorporation of performance history; the name and tenure of the portfolio manager or management team are missing; and the document does not always contain portfolio holdings, though top 10 holdings are becoming a more common disclosure in fact sheets and quarterly reports.

Despite the PDS’ adequate disclosure, overall disclosure in Australia is lacking. Exchange-traded funds and insurance products face separate disclosure requirements than those for open-end funds

and superannuation (retirement) funds, so retail investment products are not in harmony. A PDS need not be updated annually, only upon a material change in the terms or risks of the product. Fund companies must publish audited annual reports within three months after the fiscal year-end, and standard auditor independence rules do apply. But there is little information other than audited financial statements including current-year and prior-year data within the annual report. The financial statements do not require itemization of detailed expenses such that an investor can understand what portion of fees pays for specific management and administrative expenses of the fund. Shareholder reports are so sparse that our analysts find they cannot consistently identify trading costs even within financial statements. Fund companies are not required to publish a section in the annual report on management's discussion of fund performance, but it is provided in most instances to varying levels of detail. Most countries within this survey provide both a semiannual and annual report; in this respect, Australia fails to meet industry best practices.

The aggregated expenses shown in the prospective ER within the PDS are well-regulated. The ASIC Disclosure of Fees and Charges for Superannuation and Managed Investment Products guideline requires uniform representation of fees and expenses with the intention of allowing investors to easily compare one fund to another. The prospective expenses in the PDS often include the effect of acquired fund expenses in the case of fund-of-funds structures, although some funds do not report them.

Remarkably, mutual funds in Australia are not required to publish a full and complete disclosure of their portfolio holdings. In an otherwise sophisticated fund market, Australia's refusal to even approach global best practices on disclosure is surprising—and unacceptable. Worse, Australian funds rarely provide this information to investors voluntarily. The FSC is working on a policy to obligate its members to minimum levels of holdings disclosure, but no final policies have been adopted.

Not only are funds not obliged to tell their owners what is held within the fund, but they are also free to withhold nearly all information about management. Funds are not required to provide the name and tenure of portfolio managers. The managers, SRE, and the management company do not have to disclose their ownership alongside shareholders. Nor is information on the managers' compensation structure available.

Australia does not have a centralized website where disclosure documents of all mutual funds are easily accessible to investors with Internet access.

### **Fees and Expenses**

Starting in July 2013, the Australian Treasury implemented reforms known as Future of Financial Advice (FOFA). According to the ASIC website:

The legislation amends the Corporations Act and introduces:

1. A prospective ban on conflicted remuneration structures including commissions and volume based payments, in relation to the distribution of and advice about a range of retail investment products. The ban will not apply to some products and advice services, including for example:
  - ▶ general insurance, where the benefit only relates to a general insurance product;
  - ▶ basic banking products where advice is only given on a basic banking product;
  - ▶ financial product advice given to wholesale clients; and
  - ▶ advice where the client pays the benefit to the provider (e.g. fee for service arrangements).
2. A duty for financial advisers to act in the best interests of their clients, subject to a 'reasonable steps' qualification, and place the best interests of their clients ahead of their own when providing personal advice to retail clients. There is a safe harbor which advice providers can rely on to show they have met the best interests duty. This is intended to be the minimum standard of compliance with the best interests duty.
3. An opt-in obligation that requires advice providers to renew their clients' agreement to ongoing fees every two years. ASIC will have the ability to exempt advisers from the opt-in obligation if they are satisfied that the adviser is signed up to a professional code which makes the need for the opt-in provisions unnecessary.
4. Enhanced powers for ASIC.

Sales loads are no longer allowed, and investors have traded traditional commissions in favor of external payments directly for advice. Additionally, there is a mandated annual disclosure statement itemizing the fees paid and services provided.

Funds in Australia are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. Terms of performance fees are clearly stated so an investor reviewing a funds' performance can estimate costs for the current year. Published historic Indirect Cost Ratios (ICRs) include performance fees, so investors know the true cost of the fund in the past year.

In Australia, individual investors in addition to locally domiciled funds have the choice to invest in offshore funds domiciled in Hong Kong or New Zealand, but not those of other countries. Quantitative analysis of ERs for domiciled and available-for-sale funds indicates that they have very similar overall expense ratios. Morningstar considers the ICR the comparable ER for Australian funds.

Fixed-Income/Domicile	Equity/Domicile	Allocation/Domicile	Money Market/Domicile
0.58%	1.18%	0.82%	0.40%

## Sales and Media

In Australia, open-end mutual funds and superannuation funds are the most common fundlike vehicles for investors to own. Investors in Australia have a full spectrum of sales channels available from which to purchase funds, including fund supermarkets, independent advisors, banks and insurance companies, brokerage firms, and direct to fund. Advisors and platforms offered from major financial institutions tend to dominate fund sales. Overall, Australia has an open-architecture system; we estimate that more than 80% of the funds are sold through an open or guided platform. Most advisors are tied indirectly to major asset managers and tend to promote their own firms' funds. Platforms in Australia tend to be guided architecture, where funds from recommended advisors are offered rather than a full spectrum of funds from all advisors.

Most mutual funds in Australia require an investment minimum, but in many cases these minimums are waived or reduced for investors in an automatic purchase plan. Additionally, many fund firms also offer reduced minimums for individuals meeting threshold asset requirements on a fund platform. The typical investment minimum is between AUD 1,000 and 2,000.

In Australia, investors are protected from unscrupulous advice through a strict ban on "off-the-page" sales. Investors must certify that they receive a PDS when they purchase a fund in person, and they need to certify that they have received it electronically when they purchase through online platforms. FOFA requires that advisors act in the best interest of clients, as fiduciaries. This is a stronger investment protection than in most markets.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not prohibited but are not known to be common. The same professional association fiduciary standard on soft-dollar arrangements governs directed brokerage. So, while these are not banned from advisors receiving payment, the fund company is effectively banned from paying advisors unless it is in the best interests of other fund shareholders.

The use of contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds was outlawed under FOFA in July 2013.

Investors in Australia can find mutual fund articles in their newspapers on a weekly and sometimes daily basis. These articles rarely mention mutual fund fees when they are high, and they sometimes promote long-term investing. Articles on mutual funds with hedge fund fee structures do generally mention fees, but these are the exception.

# Belgium

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## Regulation and Taxation

In Belgium, the Financial Services and Markets Authority (FSMA) replaced the Finance and Insurance Commission (CBFA) in 2011. The FSMA is the primary regulator of financial markets and listed companies. In addition to the FSMA, Nationale Bank van België has some regulatory authority over investment products. According to the FSMA website:

“The FSMA is responsible for supervising the financial markets and listed companies, authorizing and supervising certain categories of financial institutions, overseeing compliance by financial intermediaries with codes of conduct and supervising the marketing of investment products to the general public, as well as for the ‘social supervision’ of supplementary pensions. The Belgian government has also tasked the FSMA with contributing to the financial education of savers and investors.”

The Law of 6 April 1995 on secondary markets, on the legal status and supervision of investment firms, and on intermediaries and investment advisors governs the investment industry. The Royal decree of 3 March 2011, establishing FSMA, supplements the primary regulation. In addition, the laws of Belgium conform to the European Union directives including the Undertakings for Collective Investments in Transferable Securities (UCITS) and the Markets in Financial Instruments Directive (MiFID).

While the Law of 6 April 1995 contains a large amount of the regulation and regulatory authority for the Belgian investment industry, the laws in Belgium are considered to be piecemeal, with some fund regulation derived from a variety of separate statutes. The laws in Belgium conform to pan-European regulations such as MiFID and UCITS IV.

Investors in Belgium can gain access to a government website for a general understanding of the laws and regulations in place governing fund structures and operations. Additionally, FSMA maintains a website that produces personal finance information for novice investors, including basic regulatory information. This innovation is surely helpful for fund investors.

Although there are multiple regulators, they are generally in agreement. In much of Europe, including Belgium, there is an industry perception that fund regulations are constantly changing, making it difficult for fund sponsors to keep up and for investors to become familiar with each change. Since our 2013 study, Belgium has implemented a number of measures that create a more level playing field between insurance products and investment funds. The ‘Twin Peaks II’ reform applies MiFID protections to insurance products in Belgium that are otherwise outside of the pan-European regulation and provides additional tools for the FSMA to investigate violations. The country also officially adopted

the Alternative Investment Fund Managers Directive (AIFMD). This regulation introduces protections such as independent custody and valuation for professional funds, hedge funds, and other funds outside the scope of the UCITS framework. Lastly, the Law of 25 April 2014 introduced a regulated status for financial-planning professionals.

Belgian regulators are subject to review by European Securities and Markets Authority (ESMA) as well as peer reviews by other EU member securities regulators. FSMA has the authority to regulate marketing of funds and has issued detailed technical requirements on what is permitted in investment advertisements. It preapproves permitted content and format of all fund advertising; ads that are not preapproved are prohibited. The Belgian regulator grew by 15% from 2011 to 2013; the 2013 annual report indicated 298 staffers for a country of around 11 million people. The enforcement actions of FSMA are sometimes public, but publication of regulatory actions against a fund is released on a case-by-case basis.

All countries in this survey, including Belgium, require funds to be audited by an independent party at least once a year. In Belgium, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two organizations can be subsidiaries of the same holding company. The FSMA requires that the duties of the custodians be appropriately segregated from the duties of other employees, and custodians should not report to groups responsible for investment, marketing, or operations.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. Soft-dollar arrangements are an accepted practice in Belgium, and funds with these arrangements are required to disclose them. As a member of the EU, Belgium has laws and regulations that comply with MiFID; this directive requires that soft-dollar arrangements be used for the benefit of investors and be disclosed, and that managers seek best execution of trades. The Belgian Asset Managers Association (BEAMA) code of conduct specifies that alternative brokerage arrangements should be limited to goods and services that benefit fund investors. Requiring that these benefits are specific to the group of investors generating the benefit is a better arrangement for investors than we see in most markets.

All mutual funds in Belgium must have a board of directors, although there is no requirement of independence.

In Belgium, there is no limitation on funds investing in securities issued in foreign companies.

Belgium allows funds registered in compliance with the UCITS IV directive to be marketed to investors in Belgium. Foreign funds are widely available, but, with closed architecture, the choice of local- or foreign-domiciled fund depends on the distribution channel being used to purchase a fund. The typical investor does not take domicile into account when making a fund investment.

Taxation of fund investors in Belgium provides incentives to invest for retirement. Investments in retirement accounts are often tied to insurance wrappers. Insurance funds are not obliged to provide the same level of disclosure as direct investments in mutual funds; in some cases the underlying fund choices are identical, but often the choices within each plan are limited by the insurer.

Belgium investors can defer taxation on dividends when choosing accumulation funds, but interest income earned within funds is taxable annually. Capital gains taxes do not typically apply to equity funds, but in many cases fixed-income funds and allocation funds with at least 25% fixed-income assets face capital gains taxes at a 25% rate. Belgium does not have a wealth tax but does apply a securities transaction tax applied to fund ownership in most cases. In Belgium, our hypothetical investment with a 6.29% annualized pretax return has an aftertax return of 5.86%, which indicates a reduction of 0.43% annually.

Most goods and services in Belgium are subject to Value Added Tax (VAT). Funds are subject to VAT upon the initial sale of shares and not upon the ongoing management services. It is common practice for this to be itemized within the simplified prospectus. This tax increases the cost of fund shares.

### **Disclosure**

As a member of the EU, Belgium has funds that are compliant with UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document (KIID). The KIID is required to pertain to only one fund at a time. It is two pages long for funds and three pages long for structured UCITS, which are generally considered structured products. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful in allowing an experienced investor to comprehend the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Expense Ratio (ER) with ongoing charges, a prospective percentage that, unlike the ER, excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. In practice, this is not uniformly enforced, and investors must often search for details and calculate the amount they would spend on performance fees on their own. In conclusion, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. The KIID does not contain any disclosure of trading costs.

The KIID contains past performance for standardized periods (typically the past 10 years) to allow investors to see the performance of the fund over time. It does not include the manager's name or tenure, making it difficult for investors to determine the connection between the manager and fund

returns. The document also does not include any information on holdings, which means that investors are not able connect to the fund's stated strategy with the actual portfolio choices of the fund.

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end funds, exchange-traded funds, and some structured products. Other products such as exchange-traded notes, exchange-traded commodities, and closed-end funds have separate regulations. Fund companies must publish both annual and semiannual reports, and the financial statements within these shareholder reports contain a comparison with the prior-year period. Unlike most countries in this survey, management's discussion of performance within reports is typically insightful and ties the portfolio returns to specific market events and trades.

Within the financial statements, the monetary costs that compose the ongoing charges are disclosed in total, generally with sufficient specific breakdowns so investors can tell how much is being paid for management fees and performance fees. Unfortunately, other investment charges such as custody and administration are not broken down, nor are advice and distribution fees (also called trailers or retrocessions). The statements contain the commissions paid, so investors can estimate trading costs. A turnover ratio and modified turnover ratio are also available. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses within the ongoing charges when more than 10% is invested in another fund.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings; this information is available in the semiannual and annual reports. Positively, most funds in Belgium are willing to disclose portfolios more frequently, and Morningstar typically receives monthly holdings after a delay to protect current trading information.

Funds are not required to provide the name and tenure of portfolio managers, and some firms are even hesitant to provide this information to research companies. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. Under AIFMD, the coinvestment information is now required for alternative investment funds. Upon implementation of UCITS V in March 2015, terms of managers' compensation will be required disclosure and there will be limitations to prevent inducement of excessive risk-taking.

The FSMA website contains a database of approved prospectuses that can be easily accessible to investors with Internet access, but the information is limited to prospectuses and does not contain other disclosure documents.

### Fees and Expenses

In Belgium, it is rare for investors to have the ability to negotiate sales loads. Typically only very large investors or clients with extensive relationships with the financial institution are able to do so. It is rare for investors to pay financial-advice fees other than through commissions or retrocessions. Less than 25% of funds in Belgium report being no-load, and funds without loads or retrocessions are virtually unavailable for investors in an open-end format even when they are investing without external advice.

Funds in Belgium are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. Terms of performance fees are clearly stated so an investor reviewing a fund's performance can estimate costs for the current year.

In Belgium, individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in Belgium. Expense ratios of funds domiciled in Belgium are lower than those offered from foreign advisors.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.16%	1.90%	1.43%	0.33%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.22%	1.30%	1.10%	0.51%

### Sales and Media

Investors in Belgium have access to multiple sales channels when purchasing funds. Banks and insurance companies dominate the market, which has an extreme level of vertical integration. It is estimated that less than 20% of fund sales occur through open- or guided-architecture sales channels, so in the vast majority of times investors are only offered products branded by the firm distributing the fund. Private banks selling to the top of the market do tend to offer more open architecture than the standard retail investment markets.

Mutual funds domiciled in Belgium rarely require an investment minimum of more than a single share. The median investment minimum of available-for-sale funds is less than USD 500. The median investment minimum of Belgium-domiciled funds is also below USD 500.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Belgium, this type of advertising to retail investors is not allowed and is enforced by the FMSA. Additionally, in many instances, consumers in the EU have cooling-off periods during which certain purchases can be canceled.

Directed brokerage arrangements, where funds send trades to a financial institution with the understanding that it will drive higher product sales from another division of the financial institution, are prohibited in Belgium. This is stronger than the MiFID protections that are the minimum for Europe.

Across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice. Sales contests or other incentives related to selling a specific fund are banned in Belgium. Recently, the practice of using sales contests to motivate the general sales of funds has been under tight scrutiny by FSMA. There have been many formal notices and informal remarks published to various market participants.

The Belgian mass media provides investors frequent information about funds. Mutual fund articles are in newspapers on an almost daily basis.

# Canada

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## Regulation and Taxation

Each province and territory in Canada is responsible for securities regulation. Securities regulators from each province and territory come together to form the Canadian Securities Administrators (CSA). The mission of the CSA is as follows: "To give Canada a securities regulatory system that protects investors from unfair, improper, or fraudulent practices and fosters fair, efficient, and vibrant capital markets, through developing the Canadian Securities Regulatory System (CSRS), a national system of harmonized securities regulation, policy, and practice."

In addition, the CSA also maintains an electronic database called SEDAR. SEDAR is a central database containing public records of all companies publicly traded on the Canadian markets. Any individual with an Internet connection can go to SEDAR to view a company's or fund's recent news releases and financial statements; however, anyone using the data available on SEDAR for commercial purposes is charged for this privilege.

Even though regulation varies among provinces and territories, national policies are in place to promote consistency. Standards exist for the marketing and administration of mutual funds. The Investment Funds Institute of Canada (IFIC) is a trade organization that provides guidelines to the industry. There are two self-regulators in Canada. The Mutual Fund Dealers Association (MFDA) represents the broker channel, and Investment Industry Regulatory Organization of Canada (IIROC), which represents independent advisors.

The provincial/territorial regulators are responsible for regulations of investment funds, and these regulations are kept up to date. Enforcement is comprehensive. Most enforcement actions are public in Canada, including fines imposed and types of violations given. The regulators' policing of advertising and sales is effective at preventing misleading marketing materials.

All countries in this survey, including Canada, require funds to be audited by an independent party at least once a year. In Canada, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, and the two organizations cannot be subsidiaries of the same holding company.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. Soft-dollar arrangements are an accepted practice in Canada, and funds with these arrangements are required to disclose them. Canadian regulation states that alternative brokerage arrangements should be limited to goods and services that benefit fund investors.

Mutual funds in Canada are often registered as investment trusts and are not required to have a board of directors. Fund companies are required to establish an Independent Review Committee (IRC) to consider and provide recommendations to the manager of the fund on possible conflicts of interest. An IRC may oversee a single fund or an entire fund family, more often the latter. Some funds are set up as a share class of a corporate structure. Typically, a board of directors would oversee all the share classes that fall under its corporate class umbrella. The boards for the corporate class funds are typically made up of company insiders and do not provide an objective oversight role.

In Canada, there is no limitation on funds investing in securities issued in foreign companies.

Canada does not allow the retail sale of funds registered in other jurisdictions to individual investors.

Taxation of fund investors in Canada provides incentives to invest for retirement. Contributions to the employer-sponsored Registered Pension Plan (RPP) are tax-deductible for both the employee and the employer. In addition, investors may supplement their income in retirement via a Registered Retirement Savings Plan (RRSP). Money deposited into the RRSP is tax-deductible. The investor is taxed at the ordinary income rate at withdrawal. The regulation of management and sales practices of the investment choices available within RPPs and RRSPs are essentially identical to taxable fund choices. One notable feature of the retirement market in Canada is the use of pooled funds rather than mutual funds. Pooled funds are investments very similar to mutual funds but offered privately without public disclosure requirements. The lack of comparable public information makes analysis of these investments difficult for investors and third-party research providers.

On Jan. 1, 2009, the Canadian federal government introduced the Tax-Free Savings Account (TFSA). This provides investors in Canada with another way to shelter their investments from taxes. Money deposited into the TFSA is not tax-deductible (as is the case in the RRSP), but gains in this account are tax-exempt. Contributions are limited to CAD 5,500 annually, and withdrawals are tax-free. Unlike the RRSP, in which withdrawals are taxed, the gains on investments inside a TFSA are never subject to tax.

Local investors are responsible for taxes on most investment income earned within funds, held in a taxable account, on an annual basis. Interest income accrues taxes at the investors' marginal income tax rate. Dividends are taxed annually, but domestic dividends are subject to an imputation calculation, which attempts to remove the double taxation of dividends. Capital gains earned within fund shares are also subject to annual tax, with 50% of the gain subject to investors' marginal tax rates; these taxes also apply to gains on the liquidation of funds. There are no additional taxes on fund investments in Canada. As mentioned above, since 2009, Canadian investors also can invest limited amounts tax-free. In our hypothetical investment, we assume that investors have put the maximum in a TFSA from January 2009 through December 2012, earning the same rates as the hypothetical for 2013 through 2017 with the remaining beginning balance held in a taxable account. The analysis assumes the split based upon January 2013 values between a TFSA and a taxable account, but new

contributions to either account are not considered. The annualized aftertax return of this investment is 5.40%, a reduction of 0.89% from a 6.29% pretax return.

Most goods and services in Canada are subject to the Goods and Services Tax (GST) and a provincial sales tax. (The territories do not have sales taxes. They are highly subsidized by the federal government, and residents receive additional tax concessions because of the high cost of living in the north.) It is common practice for this to be itemized alongside other expenses within the financial statements. This tax increases the cost of fund management. In Canada, there are both federal and provincial taxes. Currently, in four of Canada's 10 provinces, the GST is combined with the provincial tax to form a single value-added sales tax called the Harmonized Sales Tax (HST).

### Disclosure

In Canada, funds are required to publish annual reports separately from offering documents, and funds are required to publish a simplified prospectus in addition to a two-page document called Fund Facts, which is the required point-of-sale document. Prospectuses are not required to be for a single fund, and typical documents contain all of the funds offered by the provider. The simplified prospectus is written in plain language that a typical investor should understand. Typically, the fund-specific sections contain an investment-objectives section detailed enough for an experienced investor to understand the fund's strategy. These sections also identify which risks are probable for each specific fund, but an investor would need to go to the main section describing risks in order to find a definition of the identified risk.

The Expense Ratio, called a Management Expense Ratio (MER) in Canada, is provided with a breakout of management, trailing commission, and administrative costs. Trading costs are excluded from the simplified prospectus and are added on top of the MER. Both historical and prospective figures are provided. The simplified prospectus also contains a monetary illustration of fees based upon an assumed standard monetary value and return. As a rule, any trading cost information, whether it is explicit commissions or a proxy of trading costs such as turnover ratio, is unavailable in the simplified prospectus. Fund returns are also unavailable in the document. The simplified prospectus does not include fund returns or portfolio holdings information, although the Fund Facts does include up to 10 years of annual returns, best and worst three-month returns over the period, compound annual return over the period, and the top 10 holdings.

In Canada, fund companies must publish both annual and semiannual reports. A typical annual report reviewed contained audited financial statements with an itemization of fund costs. The financial-statement portion includes comparisons to prior-year figures. Fund companies are required to publish a Management Report on Fund Performance (MRFP) as a separate filing. These contain useful information such as historical MERs, trading expense ratios, and portfolio turnover rates. The MRFP contains comparisons to the prior four years. The usefulness of the manager-commentary portion of the report varies by fund company. In many cases, the commentary is not authored by any of the

professionals responsible for the day-to-day management of the fund. These commentaries are typically generic and do not tie portfolio actions to fund performance.

Regulation in Canada requires that all expenses be disclosed in percentage form in the prospectus and MRFP and in currency within the financial statements. The financial statements itemize expenses such that some investors can understand what portion of fees pays for specific management and administrative expenses of the fund. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is found within the prospectus. Fund expenses are presented in a uniform format and location in the fund literature such that investors can compare funds with each other easily.

The MFRP contains both a turnover ratio and a trading expense ratio defined as the total commission and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period of the annual report. Funds are required to disclose fees and expenses in a uniform manner. The prospective MER in Canada includes acquired fund expenses, although the historical MER is not inclusive of acquired fund expenses.

The OSC spearheaded new disclosure requirements beginning in July 2014, known as Client Relationship Model—Phase 2 or CRM-2. Phased in over a two-year period, they will be fully in place by July 2016. Advisors will be required to provide an annual summary in dollar terms of all fees paid to the distributor and advisor (including trailing commissions and loads). They will also have to provide annual performance reports depicting clients' account performance on a dollar-weighted basis, though traditional dollar-weighted returns remain optional.

Mutual funds are required to publish a full and complete disclosure of portfolio holdings semiannually. Most report full and complete holdings to Morningstar monthly. The top 25 holdings are required quarterly, and some fund companies also elect to disclose their top holdings monthly. Funds disclose their top 10 holdings in the Fund Facts.

Portfolio-manager information can be found in the Annual Information Form (AIF), a supplemental document to the prospectus. However, regulations regarding who is named manager are not strict, as figureheads and analysts are often listed. The portfolio manager's name is always published, and sometimes the tenure of the portfolio manager will also be available. Often, the documents will list only the date the manager began at the firm, not when he started managing the fund. Manager changes occurring between annual reporting periods are not required to be disclosed unless the manager is featured prominently. Many funds list multiple managers and avoid disclosing changes within team members until the AIF is published. The manager's compensation structure information or information on the manager's investment in the fund is not provided to investors.

The SEDAR website contains a database of approved fund documents that are easily accessible to investors with Internet access.

### Fees and Expenses

In Canada, investors are presented a maximum load in fund documents, but these are negotiable with their financial advisors. Investors in Canada generally do not pay for advice in addition to loads and MERs. In Canada, 96% of funds don't charge a load, according to Morningstar data, but the vast majority of funds in Canada pay a retrocession (trail commission) out of the MER to compensate advice providers. Typically, investors pay a 1% retrocession for equity funds, 0.5% for fixed-income funds, and 0.25% for money market funds, though these numbers can vary slightly by fund provider. The table below illustrates average asset-weighted trailing commissions of commission-based shares across major fund types as of February 2015.

Fund Type	Asset-Weighted Average Trailer %
Domestic Core Balanced - Aggressive	0.83
Domestic Core Balanced - Moderate	0.88
Domestic Core Balanced - Conservative	0.91
Domestic Core Bonds	0.55
Domestic Core Equity	0.99
Domestic Money Market	0.27
Domestic Non-Core Bonds	0.59
Domestic Non-Core Equity	1.04
Foreign Core Equity	0.93
Foreign Money Market	0.24
Foreign Non-Core Equity	1.01
Global Core Balanced - Aggressive	1.03
Global Core Balanced - Moderate	0.96
Global Core Balanced - Conservative	0.93
Global Core Bonds	0.63
Global Core Equity	1.00
Global Non-Core Balanced	1.01
Global Non-Core Bonds	0.61
Global Non-Core Equity	1.01
Sector Equity	1.07

When purchasing funds without advice, investors have found it increasingly possible to invest without paying a load or trail commissions (or at least at a much smaller trailing commission).

The table below, which shows the percentage of assets invested across major fund types across distribution channels across open-end retail funds, confirms this finding. Data as of February 2015.

Fund Type	Percentage of Assets		
	Commission-Based	Fee-Based	Direct
Domestic Core Balanced - Aggressive	95.6	4.1	0.3
Domestic Core Balanced - Moderate	93.5	4.1	2.4
Domestic Core Balanced - Conservative	96.5	3.2	0.3
Domestic Core Bonds	82.5	9.1	8.4
Domestic Core Equity	90.9	4.4	4.7
Domestic Money Market	90.3	2.4	7.3
Domestic Non-Core Bonds	86.1	11.3	2.6
Domestic Non-Core Equity	84.6	9.4	6.0
Foreign Core Equity	79.6	13.2	7.3
Foreign Money Market	96.4	0.3	3.3
Foreign Non-Core Equity	84.2	13.0	2.8
Global Core Balanced - Aggressive	96.2	2.7	1.1
Global Core Balanced – Moderate	95.8	3.5	0.8
Global Core Balanced – Conservative	94.1	5.8	0.1
Global Core Bonds	58.1	41.2	0.7
Global Core Equity	88.8	10.1	1.1
Global Non-Core Balanced	93.8	4.6	1.5
Global Non-Core Bonds	74.7	20.5	4.8
Global Non-Core Equity	83.7	12.2	4.1
Sector Equity	88.8	9.7	1.5

It's worth noting this fee assessment looks at retail funds and therefore doesn't include pooled, institutional, or high-net-worth share classes. These are open-end funds sold by prospectus but with negotiable fees. We estimate these share classes make up 41% of the roughly CAD 1 trillion invested in Canadian funds.

Funds in Canada are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance, but in practice they are rarely used. Terms of performance fees can sometimes be described in a confusing format, making it difficult for a typical investor to estimate a fund's costs for the current year. In Canada, individual investors do not have the choice to invest in foreign-domiciled funds.

Fixed-Income/Domicile	Equity/Domicile	Allocation/Domicile	Money Market/Domicile
1.51%	2.35%	2.16%	0.60%

The table below represents average weighted average MERs across major asset classes for the open-end retail universe, broken down by distribution channel. Data as of February 2015.

<b>Fund Type</b>	<b>Comm-Based (%)</b>	<b>Fee-Based (%)</b>	<b>DIY (%)</b>
Domestic Core Balanced - Aggressive	2.05	1.43	1.20
Domestic Core Balanced - Moderate	1.98	1.02	1.03
Domestic Core Balanced - Conservative	1.83	0.80	0.96
Domestic Core Bonds	1.48	0.83	0.62
Domestic Core Equity	2.16	1.06	1.09
Domestic Money Market	0.77	0.63	0.53
Domestic Non-Core Bonds	1.37	0.78	0.62
Domestic Non-Core Equity	2.56	1.45	1.50
Foreign Core Equity	2.21	1.01	1.03
Foreign Money Market	0.15	0.12	0.15
Foreign Non-Core Equity	2.64	1.41	1.14
Global Core Balanced - Aggressive	2.32	1.08	1.00
Global Core Balanced - Moderate	2.11	1.05	0.95
Global Core Balanced - Conservative	2.12	1.05	1.06
Global Core Bonds	1.73	0.82	1.05
Global Core Equity	2.42	1.17	1.37
Global Non-Core Balanced	2.33	1.23	1.34
Global Non-Core Bonds	1.94	1.10	0.90
Global Non-Core Equity	2.51	1.26	1.74
Sector Equity	2.62	1.35	1.26

A large portion of Canadian investment savings are in pooled funds within retirement plans. At this time, the lack of transparency on these fees does not allow us to incorporate these retirement funds into the expense analysis. These fees are negotiable, and we are not provided data on the final negotiated price paid by participants in retirement plans.

### Sales and Media

Traditional mutual funds remain the investment of choice for individuals in Canada, but exchange-traded funds are also popular. Investors in Canada have a full spectrum of local and U.S.-domiciled ETFs as investment choices; these are generally free from embedded advice fees. In Canada, an investor has a full range of distribution options to choose from, including fund supermarkets, independent advisors, brokerage firms, banks and insurance companies, and direct to fund. No sales channel dominates the market in Canada. Between 50% and 80% of funds in Canada are sold through a distributor with an open-architecture system.

Mutual funds in Canada typically have investment minimums, but these are frequently waived for investors in an automatic investment plan. The median investment minimum of Canadian funds is less than USD 500.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. In Canada, this type of advertising to retail investors is not allowed, although it is unclear how frequently this restriction is enforced. Additionally, when purchased via telephone or Internet, funds have 48 hours to supply the Fund Facts sheet to new buyers. Advisors are generally expected to consider all similar products when making a fund recommendation.

The laws regarding fiduciary standards fail to meet best practice standards of other countries. Advisors are required to deal fairly, honestly, and in good faith with clients, but unlike in a true fiduciary standard, there is no explicit legal duty of loyalty (putting clients’ interests first). Brokers are not held to this standard as the law sees the relationship with clients as transactional.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are prohibited in Canada.

In Canada, it is not a common practice to use sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds. Both of these practices are regulated to protect investors.

Canadian investors have access to media coverage of investment funds from various sources, including major daily newspapers, financial magazines, and publications and websites serving individual investors and the retail advisor community. There is frequent coverage of fund fees, and of both longer-term strategies and current investing trends.

# China

## Regulation and Taxation

The China Securities Regulatory Commission (CSRC) is responsible for regulation and supervision of the securities and futures market nationwide pursuant to applicable laws and regulations including the Securities Law, the Securities Investment Funds Law (Fund Law), and the Ordinance on the Administration of Futures Trading. The CSRC has supervision over fund management companies and sales agencies, and it shares supervision over fund custodian banks with the China Banking Regulatory Commission. The basic functions of the CSRC include:

- ▶ To establish a centralized supervisory system for securities and futures markets and to assume direct leadership over securities and futures market supervisory bodies.
- ▶ To strengthen the supervision over securities and futures business, stock and futures exchange markets, the listed companies, fund management companies investing in the securities, securities and futures investment consulting firms, and other intermediaries involved in the securities and futures businesses.
- ▶ To raise the standard of information disclosure.
- ▶ To increase the capability to prevent and handle financial crises.
- ▶ To organize the drafting of laws and regulations for securities markets.
- ▶ To study and formulate the principles, policies, and rules related to securities markets.
- ▶ To formulate development plans and annual plans for securities markets.
- ▶ To direct, coordinate, supervise, and examine matters related to securities in various regions and relevant departments.
- ▶ To direct, plan, and coordinate test operations of futures markets.
- ▶ To exercise centralized supervision of the securities business.

The CSRC is responsible for regulating and supervising investment funds. The China Insurance Regulatory Commission (CIRC) and the China Banking Regulatory Commission (CBRC) will join in discussions of certain issues such as whether insurance money should be invested in the secondary market. Regulations are considered up to date and are changed to address known problems arising in the fund industry worldwide. Enforcement is proactive in identifying new areas of regulatory risk. According to our local analysts, most enforcement actions are public. The regulation and supervision of fund advertisements are perceived as effective and prevent misleading or deceptive fund promotions.

All countries in this survey, including China, require funds to be audited by an independent party at least once a year. In China, fund assets are required to be kept by a custodian. The law states that the directors, supervisors, managers, and other employees of the fund company shall not act as

custodian of the fund or hold any position in other fund companies and shall not engage in any harmful securities trading and other activities that damage the interests of the fund investor. In addition, Article 28 of the law indicates that the fund custodian and fund company can neither be the same nor be mutually funded or hold shares. This is stronger investor protection than in most other markets.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. Soft-dollar arrangements are an accepted practice in China but must be disclosed. All relationships with brokers are disclosed in the shareholder reports; disclosure includes the number of transactions and the costs of commission. In addition, funds are required to disclose criteria used to choose brokerage firms including any research received. Since 2007, a regulation has been in place that requires all benefits through soft dollar and directed brokerage to benefit fund shareholders.

Mutual funds in China are required to have a board of directors, but decisions requiring the shareholder board are limited and there is no requirement of independence.

In China, permission is required for funds to invest in securities of foreign issuers. Each fund needs a license to invest overseas, and these licenses include limitations on the amount allowed to be invested overseas. China, India, South Africa, and Thailand are the only countries to have investment policies that are this restrictive. Individual investors could buy funds registered in other jurisdictions through bank QDII system. However, the number of these funds is limited and typically the minimum investment is above CNY 50,000 (about USD 8,000). China has been taking steps to open up their market with the QFII and RQFII quotas expanding and the implementation of the Shanghai-Hong Kong Stock Connect scheme. In addition, the CSRC and Hong Kong's Securities and Futures Commission (SFC) recently announced an agreement on the Mainland-Hong Kong Mutual Recognition of Funds (MRF) initiative. The MRF is due to be implemented on July 1, 2015.

The Chinese government offers tax-deferred saving schemes to encourage individuals to invest toward retirement through annuities. The incentives have been in place since Jan. 1, 2014.

In China, there are taxes on income distributions but not capital gains. Rather than individuals being required to file taxes themselves, all interest and dividend income from Chinese companies are subject to a 20% withholding level before the fund even receives proceeds. For individual investors, it appears there are no taxes, but taxes are incurred prior to the return being passed to the fund investor. In China, our hypothetical investment with a 6.29% annualized pretax return has an aftertax return of 5.78%, which amounts to a reduction of 0.51% annually.

Fund management services in China are not subject to a Value-Added Tax (VAT) or consumption tax.

## Disclosure

In China, investors receive simplified prospectuses on their fund investments. These are required to be for one fund at a time, so they are not consolidated with other fund offerings. For a simplified document, these are quite long, at more than 10 pages, mainly due to the inclusion of distribution and sales information. Our local analysts observe that the simplified prospectus is generally written in plain language. However, the section that describes the investment objective is written in textbooklike language that is neither clear nor specific enough for an experienced investor to be able to understand the fund's strategy. Risks, on the other hand, are explained clearly and are specific to the fund in question rather than general enough to apply to many funds. The simplified prospectus has poor information on expenses.

The Expense Ratio is not reported within the document. Furthermore, the simplified prospectus does not contain an illustration of fees nor was information regarding trading costs included. Unlike many countries, the simplified prospectus is required to include a performance history for standardized periods, the name and tenure of the portfolio manager, the top-10 equity holdings, and the top five bond holdings.

All fund investment products in China are subject to a single disclosure regime. Offering documents must be updated annually. The shareholder reports contain financial statements with a prior-year comparison, and China meets best practices by requiring quarterly shareholder reports. In fact, our analysts observe that the management discussion included in shareholder reports is generally insightful and helpful for investors. Fund costs are presented in total, and there is sometimes information on the various fund operating costs within financial statements such that an investor could determine what portion of assets pays specific costs. Explicit trading costs are available within the shareholder reports.

Expenses are presented according to local accounting regulations, so they are calculated in a uniform manner. In addition, the "Guidelines of Content and Format of Annual Report for Fund Company" issued in 2008 requires all funds to present fees in the same standardized format. The simplified prospectus presents the maximum management fee in a more standardized format, but this is not considered equivalent to the ER. Acquired fund expenses for fund of funds are included in the ER shown in financial statements.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings semiannually and the top 10 holdings on a quarterly basis.

Portfolio-manager information can be found in the prospectus. The portfolio manager's name and tenure are published. The managers' compensation structure would not be disclosed. The managers' investment within the fund has been provided to investors since 2014, and the management company's coinvestment is included in fund literature.

Since 2010, the CRSC has hosted a website containing comprehensive current fund literature.

### Fees and Expenses

Only large investors in China have the ability to negotiate sales loads with the sales agent. Purchasing investment advice directly rather than through loads or trails is not a known practice for individual investors in China. Between 40% and 70% of funds charge a front load. Investors can purchase money market funds and sometimes fixed-income funds without loads or retrocessions, but it is rare for equity funds to have these features. Money market funds and fixed-income funds made up about 48% of fund assets in China by the end of the third quarter of 2014.

Funds in China are not permitted to charge management fees with any performance-based component. Since performance fees, which can add a variable component to fees, are nonexistent in China, investors have a clear understanding of what expenses are expected to be as a percentage of assets.

In China, individual investors have limited choice to invest in foreign-domiciled funds.

Fixed-Income/Domicile	Equity/Domicile	Allocation/Domicile	Money Market/Domicile
0.89%	1.76%	1.76%	0.63%

### Sales and Media

In China, open-end mutual funds are the most common fundlike vehicle for investors to own. In China, fund supermarkets, traditional brokerage, direct sales, and bank distribution choices are widely available. Banks and bank-owned Internet platforms dominate fund sales in China, with direct sales also a large part of the market—the emergence of third party online fund platforms is also a positive trend. But despite bank-dominated distribution, more than 80% of funds are sold through an open- or guided-architecture system.

Mutual funds domiciled in China generally have investment minimums, but these are frequently waived for investors in an automatic investment plan. The median investment minimum of Chinese funds is below USD 500.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. In China, this type of advertising to retail investors is not allowed, and this provision is enforced. There is a regulation in China requiring that all advisors consider the investment suitability before making a recommendation, but this does not compare with some of the guidance coming from other countries. Advisors are held to a fiduciary standard, but they are not required to disclose potential conflicts of interest, such as being tied to a specific provider.

Directed brokerage arrangements are officially banned in China but do occur sometimes in practice; the same regulations that ban soft dollars ban directed brokerage.

In China, it is a common practice to use sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds. Both of these practices are allowed with moderate oversight. There is full disclosure of excess compensation agreements for funds to pay higher levels of commissions based upon a distributor's total volume.

Investors in China can find mutual fund articles in their newspapers on a daily basis. These articles sometimes mention mutual fund fees when they are high and sometimes promote long-term investing. China scores well below peers in the 2015 World Press Freedom Index.

# Denmark

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## Regulation and Taxation

In Denmark, Finanstilsynet (FSA) is the supervisor of compliance with financial legislation, securities issuers, and the securities market. It compiles market data on the financials sector and consults with the legislature on the development of new laws. In Denmark, it is a common practice that domestic-domiciled funds, typically targeting retail investors, are listed on the local stock exchange, Nasdaq OMX. For these funds, additional requirements apply.

The Law on Investment Funds of 12 June 2013 updated and consolidated all investment fund laws in Denmark. In much of Europe, including Denmark, there is an industry perception that fund regulations are constantly changing almost too fast for fund sponsors to keep up with and for investors to familiarize themselves with the changes. Our local analyst notes that most of the changes are behind the scenes and the average investor may not even recognize that many of these changes have occurred, but we suspect this has either added to fund costs or reduced the benefits of economies of scale from European consolidation. The laws of Denmark conform to the European Union directives including the Undertakings for Collective Investments in Transferable Securities (UCITS) and the Markets in Financial Instruments Directive (MiFID). Investors in Denmark can gain a general understanding of the laws and regulations governing the fund industry through a section of the Finanstilsynet website.

In recent years, Denmark has updated its laws to maintain compliance with pan-European initiatives including the Alternatives Investment Fund Management Directive (AIFMD) as well as the fourth iteration of UCITS. In addition to legislative compliance, the regulator has been active on additional fronts. It published a report evaluating and making recommendations for the actions of fund boards. The 2014 report included criticisms of high fees, including lack of economies of scale to the investors, and the absence of passive funds as an alternative to actively managed funds. Also in 2014, the FSA came out with a study of the tracking error and active share of funds domiciled in Denmark. Its findings indicated that nearly one third of funds were supplying an investment that was essentially passive while marketing the funds as active products and charging fees typically associated with active management. In addition to these studies, our local team has observed that the FSA has been more engaged publicly than in the past; participating as speakers at industry conferences and being quoted more frequently in the media on fund-related topics.

The FSA is also responsible for regulation of fund advertising; the tenets of the regulation follow MiFID and adhere to these substantial minimum standards. The Danish FSA has adopted local laws around ethical behavior relating to securities sales and marketing. These local laws meet all European Union mandates, but include customizations that are more stringent and occasionally unique to Denmark.

Our observations of the FSA are encouraging, but there are no external studies of the size and effectiveness of the regulator.

Denmark requires that FSA reports on the inspections of companies be published by the inspected company on their website no later than three days after they received the report.

All countries in this survey, including Denmark, require funds to be audited by an independent party at least once a year. In Denmark, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two organizations can be subsidiaries of the same holding company. There are protections within pan-European regulation that work to ensure that asset management and depository operations are sufficiently separated.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. Soft-dollar arrangements are an accepted practice in Denmark. As a member of the European Union, Denmark has laws and regulations that comply with the MiFID; this directive requires that soft-dollar arrangements be used for the benefit of investors and be disclosed, and that managers seek best execution of trades. But it is unclear in which filings companies disclose this information, and it may not be readily identified by analysts and investors.

All mutual funds in Denmark must have a board of directors, and there is a requirement of a minimum level of independent directors. As mentioned above, the FSA has recently increased its monitoring of the effectiveness of independent boards and promoted best practices, setting future expectations for board behavior.

In Denmark, there is no limitation on funds investing in securities issued in foreign countries.

Denmark allows funds registered in compliance with UCITS IV directive to be marketed to local investors after filing local paperwork. Foreign funds are available, but most sales channels operate with a closed architecture, resulting in the choice of a local or foreign-domiciled fund depending on the distribution channel being used to purchase a fund. There are tax nuances that push investors into locally domiciled funds in many instances.

Taxation of fund investors in Denmark provides incentives to invest for retirement. The investment choices are nearly identical as it is the account that carries the tax.

For nonretirement savings, Denmark taxes dividend income earned within funds at a capital income tax rate of 27% for all dividend and realized capital gains income below DKK 49,900 per person (DKK 99,800 if married) and at a rate of 42% above that level. All dividend income and capital gains earned within funds must generally be paid out to fund shareholders as dividend income for distributing funds. The above-mentioned taxation is on the shareholder level. The capital income tax

rates mentioned above apply. Capital gains upon the sale of fund shares follow the same marginal rates as other capital income. Interest income is taxed as part of ordinary income, and the rate varies from 29.6% to 42.7% depending on investors' financial status. Capital gains upon the sale of fixed-income funds are taxed as part of ordinary income with taxation level in the range of 29.6%-42.7%. Accumulation funds and foreign-domiciled funds are subject to special tax provisions with taxation level in the range of 29.6%-42.7% for all dividends, interest income, and capital gains. Denmark does not have a wealth tax or securities transaction tax applied to fund ownership. For retirement savings, the current tax rate is 15.3% for all dividends, interest income, and capital gains. In Denmark, a hypothetical investment with a 6.29% annualized pretax return has an aftertax return of 4.55%, which amounts to a reduction of 1.7% annually.

Investment management is generally exempt from Value-Added Tax (VAT) in Denmark, but related services including investment advice are subject to VAT.

### **Disclosure**

As a member of the EU, Denmark has funds that are compliant with UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document (KIID). The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for allowing an experienced investor to comprehend the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Expense Ratio (ER) with ongoing charges, a prospective percentage that, unlike the ER, excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. In practice, this is not uniformly enforced, and investors must often search for details and calculate the amount they would spend on performance fees on their own. In conclusion, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. The KIID does not contain any disclosure of trading costs.

The KIID contains past performance for standardized periods (typically the past 10 years) to allow investors to see the performance of the fund over time. It does not include the manager's name or tenure, making it difficult for investors to determine the connection between the manager and fund returns. The document also does not include any information on holdings, which means that investors are not able to connect the fund's stated strategy with the actual portfolio choices of the fund.

Across the European Union, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end funds, exchange-traded funds, and some structured products. Other products such as exchange-traded notes, exchange-traded commodities, and closed-end funds have separate regulations. While UCITS funds are the most common in Denmark, there are many pension funds and alternative investment funds offered to retail clients that are subject to AIFMD rather than UCITS. The disclosure required of these products is more limited. This report evaluates the dominant UCITS funds within the retail market. UCITS funds must publish both annual and semiannual reports, and the financial statements within the annual reports contain a full comparison of the prior year and a five-year comparison of key figures. Our analysts observe that some management discussions are detailed and insightful for investors and others are more generic and brief.

Within the financial statements, the monetary costs that compose the ER are disclosed in total, generally with many breakdowns so investors can tell how much is being paid for management fees, performance fees, other investment charges (such as custody and administration), and distribution fees (including embedded advice fees). However, we also observe a more recent trend with some fund companies decreasing transparency in the financial statements and related documents by reducing the numbers of the relevant cost breakdowns. The statements contain the commissions paid, so investors can estimate trading costs. A turnover ratio is also available within the annual report. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses within the prospective ongoing charges when more than 10% is invested in another fund.

Mutual funds are encouraged to publish a full and complete disclosure of the portfolio holdings. Portfolio holdings must be provided in the financial statements, or, if not provided herein, disclosure about how the public can receive this information must be provided. However, more than 80% of funds provide this information monthly to data providers such as Morningstar and typically update top holdings on their websites monthly.

Funds are not required to provide the name and tenure of portfolio managers; names are generally provided to Morningstar for publication without restriction. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. Compensation structure will be disclosed with the implementation of UCITS V in early 2016.

Funds are not required to identify and publish a relevant benchmark.

There is no central database for fund literature in Denmark.

### **Fees and Expenses**

Investors in Denmark pay loads along a fixed breakpoint schedule and do not have the ability to negotiate loads with their financial advisors. For funds traded in the secondary market on the local

exchange, buy and sell prices (loads) can deviate from the stated loads in the prospectuses. An increasing number of investor accounts pay financial-advice fees other than through (or in addition to) commissions or retrocessions. Instead, they are mostly through agreements on managed portfolios in the private banking sector and more frequently to a broader part of the retail segment. More than 75% of funds domiciled or available for sale in Denmark report a front load. Nordea Invest, the second-largest fund player in the Danish Market, just announced a reduction in its reported front load by a percentage equal to sales commission and a minor additional fee. This announcement was made on April 10, 2015, and the reduction took effect on that day. We appreciate this initiative from Nordea Invest, but we also recognize that economies of scale for investors will be more effectively realized by reductions in ongoing charges. We suspect more fund companies to follow up on this initiative from a dominant player in the local market.

Funds in Denmark are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. Terms of performance fees are clearly stated, so an investor reviewing a fund's performance can estimate costs for the current year. We observe that share classes with performance fees do have similar ongoing charges compared with funds without performance fees, if all other variables are kept constant. This is not intuitive, as one might expect that share classes with performance fees actually should start out with a lower "fixed" fee base. However, this tends not always to be the case. Hence, the performance-fee structure seems asymmetrical to the benefit of the fund company. The companies are able to charge extra in good years but face no downside risk given the average base fees.

Individual investors have the choice to invest in locally domiciled funds as well as UCITS with a "European passport." ERs of funds domiciled in Denmark are lower than those offered from foreign advisors.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.05%	1.82%	1.43%	0.15%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.73%	1.54%	0.84%	0.30%

### Sales Distribution and Media

Investors in Denmark only have wide access to online brokerage or bank and insurance company sales channels when purchasing funds, although there are a small number of independent advisors. Banks by far dominate the distribution in the fund marketplace for retail investors. Danske Invest (related to Danske Bank) and Nordea Invest (related to Nordea Bank) are the major players in the Danish fund marketplace, and those two together sit on approximately 50% of the market. Runner-ups are Jyske Invest, BankInvest, and Sydinvest, all three also closely associated with banks. The top 10 mutual fund companies sit on 90% of the market, and nine are related to banks and distribute through this channel. In general, it is hard for new fund companies without a close rela-

relationship to a bank to target and distribute to retail investors. It is estimated that less than 20% of fund sales occur through open or guided architecture sales channels, so in the vast majority of times investors are only offered products branded by the firm distributing the fund.

Because it is a common practice that domestic-domiciled funds, typically targeting retail investors, are listed on the local stock exchange, Nasdaq OMX, investors can trade funds directly. However, even though investors trade for themselves without use of investment advice, they are still charged fees for advice and other sales-related activities (loads, commissions, and so on).

Because of tax legislation, foreign fund companies are not easily and equally available in the local marketplace for retail investors, and, in addition, banks often penalize clients with high custody fees for foreign securities in custody. Both obstacles can be seen as technical penetration barriers, and the latter is of special concern for investors who might consider many of the low-cost passive vehicles offered by foreign fund companies.

Mutual funds domiciled in Denmark rarely require an investment minimum of more than a single share. The median investment minimum of available-for-sale funds is less than USD 500. The median investment minimum of Denmark-domiciled funds is also below USD 500; in fact, the minimum has been traditionally set at one share.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. However, it is common practice to require an acknowledging receipt of fund offering documents and the implications of investing in the fund. Advisors and other fund salespeople in Denmark can make any recommendation they feel is appropriate without considering equivalent available products that are most suitable for the specific investor. Advisors are required to disclose conflicts of interest, such as being tied to a provider.

Directed brokerage arrangements are regulated by MiFID’s limitations on alternative brokerage. The rules are equivalent for soft dollars and directed brokerage.

Across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice.

Danish funds have been discussed heavily in the media in the past couple of years, and, therefore, articles on fund investing appear often in the media. We estimate that these are present at least on a weekly basis.

# Finland

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## Regulation and Taxation

In Finland, Finanssivalvonta (FIN-FSA) is the supervisor of the financials and insurance sectors. The regulator oversees banks, insurance and pension companies, investment firms, and fund management companies, as well as the Helsinki Stock Exchange. The FIN-FSA website states:

“The objective of our activities is to enable balanced operations of credit institutions, insurance and pension companies and other supervised entities in stable financial markets. Our objective is also to protect the rights of the insured and foster public confidence in financial market operations. In addition, we are responsible for promoting compliance with good practice in financial markets and disseminating general knowledge about the markets. These objectives and duties have been included in the Act on the Financial Supervisory Authority.

We work for the benefit of the users of banking, insurance and investment services.”

The Act on Common Funds is the primary regulation outlining the requirements and responsibilities of the FIN-FSA. This legislation authorizes the FIN-FSA to issue regulations on the industries it supervises including the fund industry. In Finland, there are two websites where investors can learn the general rules and regulations of the fund industry. One is FINE, the Finnish Financial Ombudsman Bureau; the other is the FIN-FSA site itself. The FIN-FSA website has easy-to-review information published in three languages and contains quick links to consumer services, new regulations, and regulatory actions.

In recent years, Finland has updated its laws to maintain compliance with pan-European initiatives, including the Alternatives Investment Fund Management Directive (AIFMD) as well as the fourth iteration of UCITS.

The FIN-FSA is also responsible for regulation of fund advertising; the tenets of the regulation follow MiFID and adhere to these substantial minimum standards. According to its website, the FIN-FSA has about 200 employees for a country of about 5.5 million people.

There are no comprehensive independent reports on the effectiveness of the FIN-FSA. It is overseen by a Parliamentary Supervisory Council. This parliamentary body does an annual review of its activities and may comment on effectiveness/ineffectiveness of the organization. The FIN-FSA must then report how it has progressed in areas where the Parliamentary Supervisory Council has seen reason for enhancements

Finland publishes most if not all regulatory actions within the supervisory section of the FIN-FSA website.

All countries in this survey, including Finland, require funds to be audited by an independent party at least once a year. In Finland, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two organizations can be subsidiaries of the same holding company. There are protections within pan-European regulation that work to ensure that asset management and depository operations are sufficiently separated.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. Soft-dollar arrangements are an accepted practice in Finland. As a member of the European Union, Finland has laws and regulations that comply with the MiFID; this directive requires that soft-dollar arrangements be used for the benefit of investors and be disclosed and that managers seek best execution of trades. But it is unclear in which filings companies disclose this information, and it may not be readily identified by analysts and investors. The current MiFID II proposals include additional specificity on the requirements of best execution and alternative brokerage arrangements.

Funds in Finland do not have boards of directors.

In Finland, there is no limitation on funds investing in securities issued in foreign countries.

Finland allows funds registered in compliance with UCITS IV directive to be marketed to Finnish investors after filing local paperwork. There are no regulatory restrictions, and thousands of share classes in foreign funds are registered for sale in Finland. Funds from foreign sponsors are available through some brokerages, typically in insurance wrapper contracts, as well as private banks. However, their market share is small. So, while it is easy to get to the market, not many sales are going to retail investors.

Taxation of fund investors in Finland provides incentives to invest for retirement. According to our local analysts, the current system for voluntary pension saving is quite unpopular, as individuals are only allowed to deduct investments worth of a maximum of EUR 5,000 a year, and they can start withdrawing from the account only at the current maximum age of retirement of 68, despite retirement ages starting as early as 63. Therefore, demand is very thin. Frequently the choices within retirement preferred vehicles are the same, but there are additional insurance products, not available in an open-end format as well.

There are no local taxes on investors who choose to invest in accumulation funds. Investors in accumulation funds can defer all taxes until liquidation of share holdings. Upon liquidation, fund holdings are taxed at a capital income rate that is different from the marginal earned income tax rate. The full accumulation of gains is a positive feature that promotes the use of diversified

collective investments. In our hypothetical estimate of five-year after tax returns, an investor in Finland's hypothetical return would be reduced by 173 basis points annually on an investment earning 6.39%.

Investment management is generally exempt from Value-Added Tax (VAT) in Finland, but related services including investment advice are subject to VAT.

### Disclosure

As a member of the EU, Finland has funds that are compliant with UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document (KIID, which translates to Avaintietoesite in Finnish). The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund. The details provided are somewhat helpful for allowing an experienced investor to comprehend the fund's strategy, but does not go as far as to distinguish nuances such as value or growth styles of equity investing. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Expense Ratio (ER) with ongoing charges, a prospective percentage that, unlike the ER, excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. In practice, this is not uniformly enforced, and investors must often search for details and calculate the amount they would spend on performance fees on their own. In conclusion, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. The KIID does not contain any disclosure of trading costs.

The KIID contains past performance for standardized periods (typically the past 10 years) to allow investors to see the performance of the fund over time. It does not include the manager's name or tenure, making it difficult for investors to determine the connection between the manager and fund returns. The document also does not include any information on holdings, which means that investors are not able to connect the fund's stated strategy with the actual portfolio choices of the fund.

Across the European Union, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end funds, exchange-traded funds, and some structured products. Retail investors also regularly purchase index-linked notes and insurance funds as diversified portfolio substitutes. This report evaluates the dominant UCITS funds within the retail market. UCITS funds must publish both annual and semiannual reports, and the financial statements within the annual reports contain a full comparison of the prior year and a two-year comparison of net asset value, expenses, fund size, and the number of shareholders. Funds

are not required to include management's discussion of the results in their annual reports, but typically they do. In annual reports, funds are required to report portfolio changes, but this can be done in number format. Overall, we observe that the insightfulness of reporting varies greatly, but most companies give out some information on main performance drivers for the reporting period.

Within the financial statements, the monetary costs that compose the ER are disclosed in total, generally with breakdowns that isolate management fees and performance fees. Other ongoing investment charges, advisor trailer fees, and other marketing and distribution fees are buried in the management fee. The statements contain the commissions paid, so investors can estimate trading costs, and clearly present purchase and redemption charges. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses within the prospective ongoing charges when more than 10% is invested in another fund.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings. Portfolio holdings must be provided in the semiannual report at minimum, but funds typically provide this information monthly to research providers such as Morningstar.

Funds are not required to provide the name and tenure of portfolio managers. Typically, the name of the fund manager is reported, despite it not being required. Many fund firms do not rush to change manager names in reports and web pages after a change of portfolio manager. Start date is listed for perhaps half of portfolio managers.

Coinvestment information of managers is not formally disclosed in any report, but Finnish law stipulates that these holdings must be available upon request at the fund company. On this basis, there have been media reports on fund manager holdings in their own funds. Direct compensation of managers is not available in Finland, but taxable income is public information in Finland if you know the birth year of a person. However, this information is rarely highlighted by the financial media.

Compensation structure will be directly disclosed with the implementation of UCITS V in early 2016.

There is no central database for fund literature in Finland.

### **Fees and Expenses**

Most investors in Finland pay fixed sales loads when purchasing funds, but investors placing large sums in funds do have the ability to negotiate fees. Few investors pay for advice outside of commissions and trailers. Independent advisors, who charge a direct fee for their impartial work, are few and far between. Private banking clients typically pay for advice on top of funds fees, but these investors do not always invest in the same funds as most retail clients.

Most funds in Finland continue to have loads. Some foreign fund companies have waived loads on their funds in Finland, and a popular retail brokerage house, Nordnet, has done the same for all funds. Also, investors who use an insurance wrapper typically pay no loads. But the majority of funds that retail investors buy are from their banks, and they pay loads through that channel. Nordnet only began offering funds without purchase and sales fees in 2013, so it still only constitutes a small percentage of investors' assets.

Funds in Finland are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. Terms of performance fees are clearly stated, so an investor reviewing a fund's performance can estimate costs for the current year.

Individual investors have the choice to invest in locally domiciled funds as well as UCITS with a "European passport." ERs of funds domiciled in Finland are lower than those offered from foreign advisors.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.24%	1.90%	1.45%	0.12%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.65%	1.61%	1.21%	0.30%

### Sales and Media

Investors in Finland have wide access to online brokerage, banks and insurance companies, and direct-from-fund sales channels when purchasing funds. Additionally, investors placing more than EUR 100,000 can gain access to independent financial advisors. Online brokerage is very prominent, but financial conglomerates still dominate investment sales. Clients willing to go outside their primary banking and insurance relationship have the choice of more than 20 fund companies offering 500 funds. It is estimated that less than 20% of fund sales occur through open or guided architecture sales channels, so in the vast majority of times investors are only offered products branded by the firm distributing the fund.

Mutual funds domiciled in Finland rarely require an investment minimum of more than a single share. Those that do have minimums will waive them with monthly investment commitments.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Finland, this type of advertising to retail investors is prohibited. Investors who purchase a fund independently are not forced to look through a KIID document before pressing "buy." However, the law states that it must be provided concurrently. Additionally, in many instances consumers in the EU have cooling-off periods during which certain purchases can be canceled. Advisors and other fund salespeople in Finland can make any recommendation they feel is appropriate, but the advisor is not required to act as fiduciary.

Directed brokerage arrangements are regulated by MiFID's limitations on alternative brokerage. The rules are equivalent for soft dollars and directed brokerage.

In Finland, compensating advisors to sell particular funds is not prohibited, but across Europe, the MiFID framework bans any commission structures or other excess compensation that would result in biased advice.

Investors in Finland have regular access to newspaper articles on mutual funds. We observe that there are articles in leading media at least weekly.

# France

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## Regulation and Taxation

The Autorité des Marchés Financiers (AMF) is the independent public agency responsible for regulating and overseeing financial markets in France. Under its statutory duties, the AMF safeguards investments in financial instruments and in all other savings and investment vehicles, ensures that investors receive material information, and maintains orderly financial markets. The AMF has four responsibilities: regulation, authorization, supervision, and enforcement. The AMF is also responsible for regulating fund advertising and sales practices.

The AMF maintains a website that contains the general regulations that apply to the fund industry so that interested investors can understand their rights and protections. France has regularly updated its legislation and regulation to meet the standards adopted by the European Parliament. Since our last study, this includes adoption of the Alternative Investment Funds Management Directive (AIFMD) and will soon include the fifth revision of the Undertakings for Collective Investments in Transferable Securities directive (UCITS V).

There are no widely published third-party assessments on the size and effectiveness of the financial regulator or on the regulation of fund advertisements. The AMF publishes key figures about its operations on its website about five months after the end of the calendar year. As of December 2013, the latest period available, the AMF had 467 staff members for a country with approximately 65 million people.

Investors in France can review most, if not all, sanctions applied by the AMF against funds by visiting the sanctions page on the AMF site.

All countries in this survey, including France, require funds to be audited by an independent party at least once a year. In France, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two organizations can be subsidiaries of the same holding company. There are protections within pan-European regulation that work to ensure that asset management and depository operations are sufficiently separated.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. French regulation requires that fund management companies act in the best interest of investors and requires that companies seek best execution when trading securities. While soft-dollar arrangements are not a prohibited practice, firms in France are restricted to using these arrangements for research that directly benefits shareholders. These arrangements are perceived as very uncommon in France.

In France, mutual funds using a corporate structure are required to have a board of directors, but it is quite common for funds to use a partnership structure, *Fonds commun de placement*, which does not have a board.

In France, there is no limitation on funds investing in securities issued in foreign countries.

France allows funds registered in compliance with UCITS IV to be marketed to French investors. Foreign-domiciled funds are common in France, and investors are neutral to the domicile of the funds they purchase.

Specific tax incentives to encourage retirement savings in France exist in addition to a public compulsory retirement scheme with contributions collected based on salary. This public scheme has several levels of compulsory contribution. Independent professionals (such as lawyers and doctors) and merchants have the ability to contribute to optional private schemes with tax incentives. Since the beginning of 2000, employees have had the ability to contribute as well to private schemes with tax incentives. Under the tax incentive, it is possible to deduct from the tax-basis part of the amounts invested in private retirement schemes. Fund choices available in private retirement schemes are limited and often packaged with life insurance; investors do not have the full spectrum of funds to choose from.

In addition to retirement savings incentives, French taxpayers with a medium-term time horizon have the opportunity to place their savings in PEA accounts, which offer strong tax benefits. Since 2014, investors may also choose a new type of PEA account specifically designed for investments in small and medium-size firms—the PEA-PME (Plan d'Épargne en Actions destiné au financement des PME et ETI). Each individual can put up to EUR 150,000 into a PEA account and up to EUR 75,000 in a PEA-PME account. Withdrawals from PEA/PEA-PME accounts in the first five years face tax rates that can be higher than the investor's marginal income rate, but taxes can be significantly deferred when funds are in the account for more than five years. All interest income, dividend income, and realized capital gains within funds are exempt from income, dividend, and capital gains taxation while the earnings accrue in the PEA/PEA-PME account. Investors withdrawing between five and eight years of ownership are subject to social security contributions on the accrued gains at a rate of 15.5%, which would otherwise be in addition to standard taxation on investments outside PEA/PEA-PME accounts. Our hypothetical scenario assumes that investors have a five-year horizon and are rationally minimizing taxes on fund investments. The result is that our hypothetical five-year investment return with a pretax gain of 6.29% annually is reduced by 0.88% annually because of social security taxes upon liquidation in year five. This results in an aftertax annualized return of 5.41%.

Most goods and services in France are subject to Value-Added Tax (VAT); fund companies have the choice to implement VAT. Most fund companies opt out of implementing it. By opting out, the funds waive the right to receive tax credits for VAT paid.

## Disclosure

As a member of the European Union, France has funds that are compliant with UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Document d'informations Clés pour l'Investisseur (DICI). This is the French name for the Key Investor Information Document (KIID), which by regulation is in place since July 1, 2012. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund. We observe that the quality of the strategy description depends upon the fund sponsor; some are very explicit, while others, possibly even the majority, are quite vague, allowing them to twist the strategy with no amendment of the KIID. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Expense Ratio (ER) with ongoing charges, a prospective percentage that, unlike the ER, excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. In practice, this is not uniformly enforced, and investors must often search for details and calculate the amount they would spend on performance fees on their own. In conclusion, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. The KIID does not contain any disclosure of trading costs.

The KIID contains past performance for standardized periods (typically the past 10 years) to allow investors to see the performance of the fund over time. It does not include the manager's name or tenure, making it difficult for investors to determine the connection between the manager and fund returns. The document also does not include any information on holdings, which means that investors are not able to connect the fund's stated strategy with the actual portfolio choices of the fund.

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end and exchange-traded funds. In France, arguably the home of the oldest investment fund industry, there is a large list of competing local retail fund structures. These include: Fonds en Euro; Fonds Commun de Placement à Risque (FCPR); Fonds Commun de Placement dans l'Innovation (FCPI); Fonds d'Investissement de Proximité (FIP); Fonds d'épargne salariale, Fonds Commun de Placement d'Entreprise (FCPE); Organismes de Placement Collectif Immobilier (OPCI).

French funds must publish both annual and semiannual reports, and the financial statements within these shareholder reports contain a prior-year comparison. Management's discussion of performance within reports is typically generic and does not tie the portfolio returns to specific market events and trades.

Regulation in France requires that all expenses be disclosed in total currency within the financial statements.

Within the financial statements, expenses typically are not itemized clearly. Management fees include other investment costs such as custody and administration, as well as marketing, distribution, and trailers. Performance fees are itemized, as are some costs that are outside the expense ratio such as purchase and redemption fees. Trading costs are hard to identify within financial statements and are not disclosed in any other manner. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund.

Portfolio holdings disclosure is in two tiers for French investors. Those using UCITS funds are entitled to semiannual statements of investments within financial statements listing all portfolio holdings. Investors in legacy non-UCITS mutual funds are required to disclose to the AMF full and complete disclosure of the portfolio holdings annually, but investors only receive partial information. Shareowners can request a full statement of investments, but prospective owners do not have these rights. While the required portfolio holdings disclosure has two tiers, practically speaking it is getting better: More than 45% of funds submit portfolios to Morningstar monthly.

But we find that the majority of French funds include the name of the manager in fact sheets advertising the fund rather than in the KIID or in other regulatory filings. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure also carries to the management companies, which also do not provide this information. While the rules have not been fully finalized, this disclosure is slated to change in 2016 with the implementation of UCITS V.

The AMF website contains KIIDs and prospectuses, but it does not contain annual reports.

### **Fees and Expenses**

Investors in France have the ability to negotiate loads with their financial advisors. It is rare for investors to pay financial-advice fees other than through commissions or retrocessions. Funds without trailers are available in France but constitute only a small part of investor assets. Funds without front loads are widely available, but most carry retrocessions to compensate for advice.

Funds in France are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. Terms of performance fees can be described in a confusing format; only sophisticated investors reviewing a fund's performance can estimate costs for the current year.

In France, individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in France. The ERs of funds domiciled in France are generally in

line with those offered from foreign fund sponsors, but ERs for locally domiciled fixed-income funds are lower than ERs for fixed-income funds available for sale.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.07%	1.81%	1.65%	0.15%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.77%	1.65%	1.63%	0.29%

### Sales and Media

In France, insurance-linked fund products are the most common fundlike vehicle for investors to own. Life insurance has long been embedded in French investment traditions, and this has supported many of these products. Our local analysts tie the insurance preference to the relatively high risk aversion they observe in French investors. Additionally, some of the insurance-linked or guaranteed funds have tax benefits for investors unavailable in other investments.

In France, an investor has a range of distribution options to choose from including fund supermarkets, independent advisors, and banks and insurance companies. Banks and insurance companies dominate fund sales in France. It is estimated that between 20% and 50% of funds in France are sold through a distributor with an open-architecture system.

Most mutual funds in France require an investment minimum, but platforms offer lower minimums. These minimums are sometimes waived or reduced for investors in automatic purchase plans. The median investment minimum of both France-domiciled funds and funds available for sale in France is less than USD 500.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. In France, this type of advertising to retail investors is not allowed, and this regulation is strictly enforced. Advisors and other fund salespeople in France are required to put the investor ahead of themselves and act as a fiduciary. Additionally, they are required to disclose conflicts of interest, including being tied to a specific provider, among others.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are prohibited in France. Across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice. Sales contests or other incentives related to selling a specific fund fall under this MiFID rule. The practice of using sales contests to motivate the general sales of funds is an accepted practice in France.

Investors in France can find mutual fund articles in their newspapers on a weekly basis.

# Germany

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## Regulation and Taxation

In Germany, there is a single regulator, BaFin, for the supervision of credit institutions, financial-services providers, and insurance and securities trading. BaFin's mission statement is as follows: "Our function is to ensure that the German financial system continues to function properly and remains competitive and stable and that its integrity is preserved; that the trust of investors and insurance policyholders in this system is maintained; and that market operators conduct themselves fairly." BaFin pursues its mission statement through the issuance of regulations and guidelines.

The German Asset Management Association (BVI) is a registered association (not a regulatory agency) that represents the interests of the investment fund industry. The BVI has a code of conduct for industry members, but there are no penalties for noncompliance.

Kapitalanlagegesetzbuch, effective since July 2013, is the name of the statute outlining the law pertaining to investment funds. Replacing prior statutes, it is the law implementing the UCITS IV and Alternative Investment Fund Management Directive (AIFMD) and now covers both open-end and closed-end funds. BaFin is the regulator responsible for investment funds on a national level, while the European Securities and Markets Authority (ESMA) has become increasingly relevant on a European level. Investors can use BaFin's website to gain access to information about the regulations in place to standardize operations and protect investors. Since our last study, there have been material changes to regulations in Germany: the AIFMD has come into force; MiFID II has been adopted with final rule changes to come into force in January 2017; Kapitalanlagegesetzbuch replaced the prior investment funds law, Investmentgesetz; and a fee-based advice act has been implemented. BaFin issued new guidelines on the structure of performance fees with investor protections such as high-water marks and minimum calculation periods. These have become effective since July 2013.

In Germany, the federal audit office supervises the regulator and occasionally offers detailed recommendations for changes; while this is not a third party, it does evaluate the effectiveness of the regulator. BaFin employs approximately 2,300 staff for a country of around 83 million people. This includes supervision of banks, insurers, securities trading, and funds. BaFin's website publishes many but not all sanctions against the sectors it regulates.

All countries in this survey, including Germany, require funds to be audited by an independent party at least once a year. In Germany, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two organizations can be subsidiaries of the same holding company. Pan-European regulation has strict protections for custody of assets for investment companies.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. German regulation requires that fund management companies act in the best interests of investors and requires that companies seek best execution when trading securities. As a member of the European Union, Germany has laws and regulations that comply with MiFID; this directive requires that soft-dollar arrangements be used for the benefit of investors, be disclosed, and that managers seek best execution of trades.

Mutual funds in Germany are not required to have a board of directors.

In Germany, there is no limitation on funds investing in securities issued in foreign countries.

Germany allows funds registered in compliance with the UCITS IV directive to be marketed to German investors. Foreign-domiciled funds are common in Germany, and investors are neutral to domicile.

The German government does offer tax-deferred saving schemes called Riester Rente and Rürup Rente to encourage individuals to invest toward retirement. The fund products that are allowed under the retirement scheme offer a pretax income deferral based on age. The Riester Rente savings plans are required to guarantee a minimum payout corresponding to the full disbursement of contributions and government subsidies, and the investment choices are limited.

Germany taxes interest and dividend income earned within funds regardless of distribution at a capital income rate (including surcharge) of 26.4%. Capital gains earned within fund shares are not taxed. Capital gains upon liquidation of shares are taxed at the same capital income rate. In Germany, our hypothetical fund investment with a 6.29% annualized pretax return has an aftertax return of 4.71%, which amounts to a reduction of 1.58% annually. Most taxes are withheld at the income source in Germany.

Investment management is generally exempt from Value-Added Tax (VAT) in Germany.

### **Disclosure**

As a member of the EU, Germany has funds that are compliant with UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document (KIID), which by regulation must be in place after July 1, 2012. In German, this document's name translates to Wesentliche Anlegerinformation. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, and the details provided are sufficient to comprehend the fund's strategy, if not in every detail. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Expense Ratio (ER) with ongoing charges, a prospective percentage that, unlike the ER, excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. The KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. The KIID does not contain any disclosure of trading costs.

The KIID contains past performance for standardized periods (typically the past 10 years) to allow investors to see the performance of the fund over time. It does not include the manager's name or tenure, making it difficult for investors to determine the connection between the manager and fund returns. The document also does not include any information on holdings, which means that investors are not able to connect the fund's stated strategy with the actual portfolio choices of the fund.

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end and exchange-traded funds. Other products such as insurance products and structured products have separate regulations. In Germany, the fund's offering document only needs to be updated upon a material change in the operating terms or investment strategy, rather than annually, but it is reviewed annually. Fund companies must publish both annual and semiannual reports, and the financial statements within these shareholder reports do not contain a prior-year comparison. Management's discussion of performance within reports is typically generic and does not tie the portfolio returns to specific market events and trades.

Within the financial statements, the monetary costs that compose the ER are disclosed in total and usually have specific breakdowns so investors can tell how much is being paid for the major expenses. The direct costs are shared, but marketing and distribution charges, as well as embedded advice charges, are often excluded from itemized disclosure. A turnover ratio and trading costs are available within the shareholder reports. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings. This information is required in the semiannual and annual reports. While the required disclosure is annual, we find that 80% of funds voluntarily disclose holdings to Morningstar at least quarterly, including 45% reporting on a monthly basis.

Funds are not required to provide the name and tenure of portfolio managers; names are frequently provided without tenure. This disclosure occurs in marketing materials, is posted on fund websites, and is provided to research providers such as Morningstar. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure also carries to the management company, which also does not provide this information.

There is no central database for fund literature in Germany.

### Fees and Expenses

Investors in Germany can negotiate the commission with the sales agent upon purchase. It is rare for investors to pay financial-advice fees other than through commissions or retrocessions. Funds with no loads or retrocessions exist in Germany, but they are difficult for investors to locate and make up a small percentage of assets, resulting in charges for advice even when none is taken.

Funds in Germany are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. From July 2013, however, Germany-domiciled funds that do not apply high-water marks or a yearly calculation time frame will need to restructure their performance fees. Losses against the benchmark will have to be carried forward for five years. Terms of performance fees are clearly stated, so an investor reviewing a fund's performance can estimate costs for the current year.

In Germany, individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in Germany. The ERs of equity and fixed-income funds domiciled in Germany are generally lower than those offered from foreign fund sponsors, but ERs on money market funds are similar for locally domiciled and foreign funds.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.06%	1.81%	1.63%	0.15%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.76%	1.44%	1.54%	0.27%

### Sales and Media

In Germany, an investor has multiple distribution options to choose from, including fund supermarkets, independent advisors, and banks and insurance companies. Banks and insurance companies dominate fund sales in Germany. It is estimated that between 20% and 50% of funds in Germany are sold through a distributor with an open- or guided-architecture system.

Most mutual funds in Germany require an investment minimum, but in most cases these minimums are waived or reduced for investors in an automatic purchase plan. The median investment minimum of Germany-domiciled funds is less than USD 500, and the median of funds available for sale in Germany is also less than USD 500.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Germany, this type of advertising to retail investors is not allowed, and this regulation is enforced. Additionally, in many instances consumers in the EU have cooling-off periods during which certain purchases can be canceled. Advisors in Germany are required to act as fiduciaries and put investors ahead of their own interests.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are prohibited in Germany.

In Germany, the practice of compensating advisors (either monetarily or through awards) for selling particular funds is not banned. However, across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice. Germany's regulations go even further: The compensation is only permitted if it helps to improve the quality of advice and is not against the interests of the investor; it also has to be disclosed to investors.

Investors in Germany can find mutual fund articles in their newspapers on a daily basis. These articles occasionally mention mutual fund fees when they are high, and they sometimes promote long-term investing. The introduction and growth of ETFs has drawn more media attention to higher costs, but it is still lacking.

# Hong Kong

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## Regulation and Taxation

In Hong Kong, the Securities and Futures Commission (SFC) is the regulatory body responsible for supervision over securities and futures markets, as empowered by the Securities and Futures Ordinance. It is an independent nongovernmental statutory body outside the civil service. The SFC's objectives are to:

- ▶ Maintain and promote the fairness, efficiency, competitiveness, transparency, and orderliness of the securities and futures industry.
- ▶ Promote understanding by the public of the operation and functioning of the securities and futures industry.
- ▶ Provide protection for members of the public investing in or holding financial products.
- ▶ Minimize crime and misconduct in the securities and futures industry.
- ▶ Reduce systemic risks in the securities and futures industry.
- ▶ Assist the Financial Secretary in maintaining the financial stability of Hong Kong by taking appropriate steps in relation to the securities and futures industry.

The Code on Unit Trusts and Mutual Funds is issued by the SFC as a guideline for the authorization of a collective investment scheme; the code does not have the force of law. The SFC is also responsible for regulating fund advertising and sales practices. In addition to the SFC, the Hong Kong Monetary Authority (HKMA) shares some powers over funds. The two organizations are generally in agreement over regulatory issues. The SFC regulates asset managers and other intermediaries, and the HKMA regulates authorized financial institutions such as banks (although the SFC licenses the financial institutions). The two regulators work closely together and have entered a Memorandum of Understanding with set-out details to their respective roles and responsibilities. They have regular meetings under the memorandum to discuss matters of mutual interest.

Hong Kong doesn't have a single statute regulating funds, but there are multiple laws that together empower the SFC and Monetary Authority to enforce specific rules. Regulations are regularly updated to address known problems. Since the 2013 survey, effective 4 July 2014, SFC-registered funds are required to disclose (i) ongoing charges calculated in accordance with the "Ongoing Charges Guidelines" and (ii) performance over the past 10 years in the form of a bar chart in accordance with the "Performance Information Guidelines" in the simplified prospectus, known as the product Key Fact Statement (KFS). These two items were optional prior to this circular. All enforcement actions are public as is required by the SFC Code. The regulation and supervision of fund advertisements is generally effective, as governed under the "Advertising Guidelines Applicable to Collective Investment Schemes Authorized Under the Product Code."

All countries in this survey, including Hong Kong, require funds to be audited by an independent party at least once a year. In Hong Kong, fund assets are required to be kept by a custodian. The Code requires that the custodian be independent of the fund manager; however, there are restrictions on when the two organizations can be subsidiaries of the same holding company.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for goods and services. In Hong Kong, soft-dollar arrangements are allowed to be used for research and advisory services. In addition, there are strict limitations against using soft-dollar arrangements for travel, entertainment, and general administrative goods or services. The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission requires that fund management companies act in the benefit of investors and requires that companies seek best execution when trading securities; such information must also be disclosed in the investment management agreement. While soft-dollar arrangements are not a prohibited practice, firms are restricted to using these arrangements for research that directly benefits shareholders. Moreover, all monetary and nonmonetary benefits must be disclosed.

In Hong Kong, there is no limitation on funds investing in securities issued in foreign countries.

Hong Kong allows funds domiciled in other countries to register for sale to Hong Kong investors. This process is streamlined for UCITS compliant funds. Foreign-domiciled funds are common in Hong Kong, and investors are neutral to local and foreign-domiciled funds. The China Securities Regulatory Commission (CSRC) and Hong Kong's Securities and Futures Commission (SFC) recently announced an agreement on the Mainland-Hong Kong Mutual Recognition of Funds (MRF) initiative. The MRF is due to be implemented on July 1, 2015.

There are some tax incentives for retirement in Hong Kong. The government offers the Mandatory Provident Fund (MPF), and contributions up to 5% of an individual's salary (capped at HKD 1,500) are exempt from income taxes. The MPF is a defined-contribution product, and fund advisors must be approved to operate by the government. The fund choices offered under the MPF structure are more limited than those offered for nonretirement funds. Disclosure rules and other regulations are also different for nonretirement funds. The Mandatory Provident Fund Authority (MPFA) allows employees the option of transferring accrued benefits in their current MPF scheme to an MPF scheme of their own choice. This arrangement was introduced in hopes of encouraging more MPF choices for investors and further competition. More recently, the MPFA has announced the introduction of a standardized default investment strategy, which is expected to automatically reduce investment risks as members approach their retirement age, and therefore seeks to meet long-term retirement-savings objectives for those who either do not indicate a specific fund choice or specifically choose to invest through this strategy. The management fee is capped at 0.75%, and the Hong Kong government will look to further reduce the cap upon the implementation of the strategy.

Fund investors in Hong Kong are not subject to capital gains or income taxes on their mutual fund investments or distributions. Additionally, there are no wealth taxes or other taxes on investment wealth that apply to fund income. Our hypothetical investment was not affected by taxes and had identical 6.29% annualized returns on a pretax and aftertax basis.

Fund management services in Hong Kong are exempt from consumption taxes.

### **Disclosure**

Hong Kong has a simplified prospectus called the KFS, which forms part of the offering document (along with the prospectus) and contains information such as the ongoing charge and performance. The KFS only refers to a single fund at a time and is typically fewer than five pages. The language in the document is deemed simple enough for the average investor to understand, and the strategy or objective section typically provides enough information that an investor can determine the investment's strategy effectively. The document also contains sections that cover general investing risks and strategy-specific risks, both written in a manner that can easily be understood by the average investor. As a material improvement compared with the last survey, expenses in Hong Kong gained standardized disclosure in 2014 in accordance with the Ongoing Charges Guidelines policy. However, there is no monetary illustration of fees within the document. Also updated in 2014, funds are now required to disclose their calendar-year performance over the past 10 years in the form of a bar chart in the KFS.

Disclosure in Hong Kong differs depending on the fund structure. Open-end funds have different disclosure requirements from closed-end funds, exchange-traded funds, and other retail investment products. The offering document in Hong Kong is updated at least once per year. Fund companies must publish both annual and semiannual reports, and the financial statements within these shareholder reports contain a prior-year comparison. Management's discussion of performance is not required but is sometimes provided. The quality of discussion varies by fund provider.

Within the financial statements, the monetary costs that compose the ongoing charges are disclosed in total. Financial statements present the monetary costs used to calculate the expense ratio in total only but provide details on administration, management, performance, custodian, distribution, and other fees, making it easy for investors to identify easily all but the marketing and distribution costs. Such costs are also available in percentage terms in the KFS. Funds that substantially invest in other funds must disclose ongoing charges of those funds since July 2014.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings semiannually, and these can be found in both the semiannual and annual reports. Holdings are not required to be reported in the KFS.

Funds are not required to provide the name and tenure of the portfolio manager. This information is rarely found in required documents, but it is commonly found in marketing material, particularly Fact

Sheets. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure carries to the board and the management company, which also do not provide this information.

In Hong Kong, fund-offering documents can be found on the SFC website. However, the website only hosts the prospectus and the KFS, and investors have to search further for additional fund literature, such as the annual reports.

Funds are required to disclose all long and short holdings to the general public semiannually. The name and tenure of the manager are not required disclosures, but firms often provide the information voluntarily. Funds do not disclose any holdings the lead manager has in the portfolio, nor do they disclose information of the compensation of managers.

### Fees and Expenses

Investors in Hong Kong can negotiate the commission with the sales agent upon purchase. It is also rare for investors to pay financial-advice fees other than through commissions or retrocessions. Between 50% and 75% of funds domiciled in Hong Kong and more than 75% of funds available for sale in Hong Kong report charging front loads. Although no-load funds do exist, we find that they are difficult for Hong Kong citizens to locate and thus make up a minimal part of investor assets.

Funds in Hong Kong are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. Terms of performance fees are somewhat clearly stated, so an investor reviewing a fund's performance can estimate costs for the current year.

In Hong Kong, individual investors have the choice to invest in locally domiciled funds as well as foreign funds that register for sale. The ERs of funds domiciled in Hong Kong are typically lower than those offered from foreign fund sponsors.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.40%	1.90%	1.69%	0.18%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.96%	1.52%	1.69%	0.48%

### Sales and Media

Hong Kong investors only have banks, insurance companies, and fund supermarkets as widely available distribution options. Banks and insurance companies tend to dominate fund sales. Despite these traditionally closed channels' dominance, it is estimated that more than 80% of funds are sold by a distributor with open or guided architecture. Distributors typically have a guided-architecture platform, offering selected funds from many fund sponsors.

Most mutual funds in Hong Kong require investment minimums. The median investment minimum of both Hong Kong-domiciled funds and all funds available for sale is between HKD 1,000 and HKD 2,000.

In Hong Kong, fund investors are provided fund-offering documents prior to purchase. The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission requires advisors to act in the best interest of investors. Therefore, advisors and other fund salespeople in Hong Kong should make recommendations that are most suitable for the specific investor.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are prohibited in Hong Kong.

The practice of using sales contests and other incentives to motivate general sales of specific funds is permitted but is subject to strict regulation.

Investors in Hong Kong can find mutual fund articles in their newspapers on at least a weekly basis, an improvement from past surveys. These articles sometimes mention mutual fund fees when they are high, and they sometimes promote long-term investing.

# India

## Regulation and Taxation

In India, the Securities and Exchange Board of India (SEBI) is the regulatory body responsible for supervision of fund management companies and sales agencies. It was established in accordance with the provisions of the Securities and Exchange Board of India Act “to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto.” Mutual funds are governed by the Securities and Exchange Board of India (Mutual Funds) Regulations.

In addition to SEBI, the Association of Mutual Funds in India (AMFI) is involved in certain self-regulatory activities. Presently all asset-management companies authorized by SEBI are AMFI members following its code of conduct. AMFI’s objectives are as follows:

- ▶ To define and maintain high professional and ethical standards in all areas of operation of the mutual fund industry.
- ▶ To recommend and promote best business practices and codes of conduct to be followed by members and others engaged in the activities of mutual funds and asset management including agencies connected to or involved in the field of capital markets and financial services.
- ▶ To interact with SEBI and to represent to SEBI on all matters concerning the mutual fund industry.
- ▶ To represent to the government, Reserve Bank of India, and other bodies on all matters relating to the mutual fund industry.
- ▶ To develop a cadre of well-trained agent distributors and to implement a program of training and certification for all intermediaries and others engaged in the industry.
- ▶ To undertake a nationwide investor-awareness program so as to promote proper understanding of the concept and working of mutual funds.
- ▶ To disseminate information on the mutual fund industry and to undertake studies and research directly and/or in association with other bodies.
- ▶ To regulate conduct of distributors including disciplinary actions (cancellation of ARN) for violations of the Code of Conduct.
- ▶ To protect the interest of investors/unitholders.

The Securities and Exchange Board of India (Regulations) 1996 is the comprehensive statute governing the fund industry. All enforcement actions are handled by SEBI as the sole regulator. Indian regulations are up-to-date, and the financial authorities have been proactive in recent years about keeping fund regulations current. The regulators have even been proactive in identifying improprieties. Most enforcement actions are public in India and can be found on the SEBI website. The regulation and supervision of fund advertisements are perceived as effective and prevent misleading advertising.

In 2014, SEBI raised the minimum net worth of asset management companies to INR 500 million from INR100 million earlier. As per SEBI, the minimum net worth was raised to ensure that mutual funds attain a reasonable size and are able to work towards financial inclusion.

All countries in this survey, including India, require funds to be audited by an independent party at least once a year. In India, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the custodian and mutual fund company can be related by minority ownership.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. The AMFI Code of Conduct requires that fund management companies act in the benefit of investors and requires that companies seek best execution when trading securities, and these are typically disclosed. While soft-dollar arrangements are not a prohibited practice, firms are bound by the professional code of conduct to using these arrangements for research that directly benefits shareholders.

In India, the board of directors is called the board of trustees, and two thirds of trustees in India must be independent.

In India, funds must apply for permission to invest in securities issued in foreign countries. Individual funds can obtain permission to invest approximately USD 300 million overseas. The aggregate ceiling for overseas investments at an industry level is capped at USD 7 billion.

India strictly limits registration of foreign funds for sale to Indian investors. There are restrictions on the amount of assets that individuals can invest in foreign assets including the purchase of fund shares. Indian investors typically invest in India-domiciled funds.

In India, there are tax-preferred investment vehicles that allow for investors to save for retirement. The investment guidelines for these products are different, although in many cases the fund is nearly identical to an open-end fund.

Indian investors rarely pay taxes directly on fund investments. Fixed-income funds are permitted to accrue all income within the fund; only distributions and withdrawals are subject to taxes. For equity funds in India, domestic dividends are subject to a direct tax of 15% by the issuing corporation. This means the fund receives a dividend that is fully assessed for taxes, but it still reduces available return for investors. Indian investors are not responsible for long-term capital gains earned within funds. For fixed-income funds, the investors need to have a holding period of more than three years to qualify for the long-term capital gains tax rate of 20% on gains after the cost basis is indexed for inflation. Equity funds get preferential treatment: Investors need to have a minimum holding period of one year to qualify for long-term capital gains, and long-term capital gains on

equity mutual funds are tax-free. Additionally, the sale of equity funds is subject to a 0.001% securities transaction tax (STT). The STT is not applicable for fixed-income funds. This survey uses a five-year hypothetical investment portfolio with annualized pretax returns of 6.29%. The estimated aftertax return for investors in India is 5.71%, for a reduction of 0.58%.

Fund management services in India are subject to a service tax.

### Disclosure

In India, the simplified offering document is known as a Key Information Memorandum (KIM). These typically accompany the application form when investing in a fund. These documents are not required to be one fund at a time, and there is no typical practice of companies providing it as a stand-alone document. Our analysts observe that some fund companies combine the KIM for multiple investments. Conversely, the full prospectus is known as a Scheme Information Document (SID). The typical KIM is fewer than five pages in length. The language in the document is clear for modestly experienced investors and free of too much complex jargon. Despite the plain language, the investment objective is not sufficient for professional investors to know the specific investment strategy of most funds. The section on risks within the KIM is considered more effective, but they often apply to all investment funds and are not specific to an individual fund.

Within the KIM, there is presentation of the historic Expense Ratio (ER). A numerical example that illustrates the total expenses an investor could expect to pay on an investment is not available. There is not a specific disclosure of trading costs or a proxy such as a turnover ratio found in the KIM. Unlike many regions, the KIM contains standardized returns for one-year, three-year, five-year, and since-inception periods. The KIM includes the name of the portfolio manager but not the tenure. This is unusual because we observe that marketing materials frequently include the managers' start dates. The KIM does not contain information on holdings in the portfolio.

All fund products in India are subject to the same disclosure requirements. The SID has to be updated at least annually, but if there is a change to a fundamental attribute of the fund, SEBI requires that the offering document is updated immediately. Fund companies must publish both annual and semiannual reports, and the financial statements within these shareholder reports contain a prior-year comparison. Management's discussion of results is required, but it is generic and fails to connect fund performance to individual trades or market movements.

Within the financial statements, the monetary costs that compose the ER are disclosed in total; there is rarely a breakdown of the components of the management and administrative costs. Trading costs are not disclosed. Expenses in India lack formal regulations on standardized presentation, but most funds have adopted disclosures that are very similar if not identical to each other. Acquired fund expenses are not included in the ER for fund of funds.

India and Korea are the only countries in the survey that require monthly disclosure of full portfolio holdings. Prior to monthly disclosure becoming mandatory, we had found that most companies had already disclosed holdings as a best practice. It is encouraging to see such transparency of portfolio holdings.

Funds in India are required to provide the name of the portfolio manager within the SID and typically include a start date within marketing materials. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure also carries to the board and the management company, which also do not provide this information. In 2014, the market regulator SEBI has introduced the concept of seed capital, wherein 1% of the amount raised (subject to a maximum of INR 5 million) to be invested by asset management companies in all the open-ended schemes during its lifetime. This is a positive and a unique regulation promoting a 'skin in the game' approach.

In India, the AMFI website contains the Statement of Additional Information and links to fund company websites from which investors can procure other documents.

### Fees and Expenses

In India, front-load charges have not been permitted since August 2009. Funds are still allowed to charge deferred loads, and investors cannot negotiate these with the sales agent. Fund companies in India have also launched share classes for each fund where they do not pay any upfront or trail commissions; these are known as direct plans since January 2013 as per the regulations. The investor benefits by investing in these funds as they have lower expense ratios as compared with regular plans. In the earlier regime, front-load charges were typically paid to advisors or brokers as commissions; at present, fund companies can yet pay front-end commission, but the same can no longer be directly charged to funds but are incorporated in the expense ratio of the fund. Investors in India sometimes pay for advice in addition to loads and ERs, though such instances are very rare.

Funds in India are not permitted to charge performance fees.

In India, individual investors do not truly have the choice to invest in foreign-domiciled funds.

Fixed-Income/Domicile	Equity/Domicile	Allocation/Domicile	Money Market/Domicile
0.53%	2.65%	2.38%	0.18%

## Sales and Media

In India, insurance-linked products are the most common fundlike vehicle for investors to own. Our analysts observe that since the end of front loads in 2009, distributors have focused on selling insurance products, which have higher fee structures. But as these changes coincided with the global financial crisis, it is unclear whether the protection the insurance wrapper offers also has driven this change. In India, an investor has a full range of distribution options, including fund supermarkets, independent advisors, brokerage firms, and direct to fund, as well as banks. Independent advisors and bank company sales channels tend to dominate fund distribution. It is estimated that more than 80% of funds in India are sold through a distributor with an open-architecture system.

Most mutual funds in India require investment minimums. The median investment minimum of funds in India is below USD 500.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. In India, this type of advertising is not allowed, as investors are supposed to receive a SID prior to investment. This practice is not strongly enforced. Advisors and other fund salespeople in India can make any recommendation they feel is appropriate without considering equivalent products available that are more suitable for the specific investor.

As of 2013, advisors are required to impose a fiduciary standard when dealing with clients. A person selling mutual funds must register as a “Distributor” (wherein commissions from the investment provider are earned) or an “Investment Advisor” (wherein advisory fees are paid by the client but no commissions are assessed). Advisors must also disclose any conflicts of interest to clients.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are permitted in India, but according to our analysts this practice is not known to occur. The AMFI code of conduct requires that funds seek best execution and act in the interest in shareowners.

In India, the practice of using sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds is allowed as long as they adhere to regulations.

Investors in India can find mutual fund articles in their newspapers on a daily basis, and these articles usually promote long-term investing. SEBI requires funds to keep aside a minimum of 0.02% on daily net assets for investor awareness and education. While this has prompted many asset management companies to take investor education seriously, it is reflected in the media coverage as well. The Indian media is increasingly focused on spreading financial literacy among investors including promoting benefits of long-term investing and financial planning. Though may be at a nascent stage, our analysts note that the change is both positive and improving further.

# Italy

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## Regulation and Taxation

In Italy, regulatory responsibility is divided between the central bank, Banca d'Italia, and the market regulator, Commissione Nazionale per le Società e la Borsa (Consob). The Bank of Italy is the authority over banks that provide investment services and any organization engaged in collective asset management. A separate public authority, Consob, is responsible for the regulation of Italy's securities markets. Consob was established by section 40.3 of Law 724 of 23 December 1994 amended 2005. In addition, the Commissione di Vigilanza sui Fondi Pensione (COVIP) is responsible for regulatory oversight of pension funds. As a member of the European Union, Italy has laws that conform to European directives including Markets in Financial Instruments Directive (MiFID) and UCITS IV.

Banca d'Italia is the central bank of the Republic of Italy and part of the European System of Central Banks (ESCB) and the euro system. It is a public-law institution and pursues aims of general interest in monetary and financial matters: price stability, the primary objective; the stability and efficiency of the financial system; and other duties. Although the majority of shares (around 94%) in its capital are owned by private banks, it is an institution of public law as established by the Banking Act of 1936.

Consob aims to protect investors and the efficiency, transparency, and development of the market. Consob regulates the provision of investment services and activities by intermediaries and the reporting obligations of companies listed on regulated markets; it monitors the transparency and correct nature of the conduct of intermediaries and checks the information disclosed to the market; it sanctions the entities monitored; it is also competent for provision of portfolio management services; drawing up and publication of prospectuses; storing and filing of regulated disclosures; determination of the minimum financial resources of regulated market management companies and of central depositories; and drawing up and publication of the semiannual and quarterly reports. Consob is also the agency responsible for oversight of fund advertising and sales practices.

Consob is formally independent. It is composed of five members appointed by the president of the republic on the proposal of the prime minister, following consultations with the cabinet, which shall remain in office seven years without the possibility of a second term. One of the members is also the president.

The single most important legislative source for the industry is Legislative Decree 24 February 1998, 58, entered into force in July 1, 1998. The decree is better known as Testo Unico della Finanza (TUF, literally Consolidated Law on Finance). For SICAV and SGR (asset management companies), TUF assigns to the Banca d'Italia supervisory tasks for risk containment, stability, and the "sana e prudente gestione," that is, "sound and prudent management," whereas Consob is responsible for the transparency and fairness of firms' behavior concerning investment products.

The laws of Italy conform to the EU directives including UCITS and MiFID. Investors can learn about the general rules and regulations that govern the fund industry on a section of the Consob website. Other than registration of fund firms, Consob handles all of the day-to-day regulation of funds. In the past few years, Italy has updated its laws to comply with the fourth update to pan-European UCITS regulations and the Alternative Investment Fund Managers Directive. Additionally, local regulations have been updated in a variety of areas including manager qualifications, capital adequacy, and the authorization of fund companies.

There are no independent reports on the effectiveness of the Italian regulator. There is significant information on the Consob website about its operations, but the total number of staff is not easily located. Significant information is available on organization charts and key roles. The enforcement actions taken by the regulator are generally public and can be found on its website.

All countries in this survey, including Italy, require funds to be audited by an independent party at least once a year. In Italy, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two organizations can be subsidiaries of the same holding company. The law also includes other measures to avoid conflicts of interest between the auditor and the audited company, such as imposing maximum lengths for contracts and forbidding advisory contracts. Furthermore, there are protections within pan-European regulation that works to ensure that asset management and depository operations are sufficiently separated.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. As a member of the EU, Italy has laws and regulations that comply with MiFID; this directive requires that soft-dollar arrangements be used for the benefit of investors and that managers seek best execution of trades. Consob also has specific regulations that address this issue. Italy allows soft-dollar arrangements that adhere to these restrictions.

Funds in Italy are required to have boards of directors with a minimum level of independent directors. In Italy, there is no limitation on funds investing in securities issued in foreign countries.

Italy allows funds registered in compliance with the UCITS directive to be marketed to Italian investors. Foreign-domiciled funds are common in Italy, and investors historically preferred foreign-domiciled funds because of corporate tax treatment received by Italian funds. Until July 2011, Italy-domiciled funds published their net asset value posttax, setting a disparity of treatment compared with foreign-domiciled funds. The system has been reformed in 2011, and since then there is no disparity.

In Italy, there are specific tax incentives to encourage investors to save for retirement, but this incentive has been reduced in the past year. Pension funds carry a lower tax rate than other funds. Transparency in pension funds is lower than open-end funds. Investors still frequently choose

insurance-linked products to take advantage of retirement tax savings. The regulation of these products is perceived as fairly aligned with open-end funds.

Interest, dividend, and capital gains income are taxed at a capital income rate that is different from the marginal income tax. "White List" government-bond interest and gains are taxed at a lower-capital income rate. Unlike with exchange-traded funds, stocks, and bonds, fund investors cannot use investment losses to offset gains on fund sales. Investors can defer all of these taxes when they invest through an accumulation share class. For fund investors in accumulation share classes, only a capital tax rate is applied to the gains and accrued income upon the liquidation of fund shares. These changes, which have been recently applied in Italy, put investors on a level playing field with residents of most other EU nations. In Italy, our hypothetical fund investment with a 6.29% annualized pretax return has an aftertax return of 5.12%, which amounts to a reduction of 1.17% annually.

Fund management services in Italy are not subject to Value-Added Tax (VAT).

### **Disclosure**

As a member of the EU, Italy has funds that are compliant with UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document (KIID), which by regulation must be in place after July 1, 2012. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Expense Ratio (ER) with ongoing charges, a prospective percentage that, unlike the previous ER, excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. In the full prospectus, there are scenario analyses with monetary examples on how the performance fee is calculated; the KIID, however, only provides the percentage.

The KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. The KIID does not contain any disclosure of trading costs.

The KIID contains past performance for standardized periods (typically the past 10 years) to allow investors to see the performance of the fund over time. This performance is compared with the fund's named benchmark. The KIID does not include the manager's name or tenure, making it difficult for investors to determine the connection between the manager and fund returns. The document also does not include any information on holdings, which means that investors are not able to connect the fund's stated strategy with the actual portfolio choices of the fund.

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end funds and ETFs. Other products such as exchange-traded notes, exchange-traded commodities, closed-end funds, and structured products have separate regulations. In Italy, the funds' offering document only needs to be updated upon a material change in the operating terms or investment strategy, rather than annually. Fund companies must publish both annual and semiannual reports, and the financial statements within these shareholder reports must contain a prior-year comparison. Management's discussion of performance within reports is typically generic and does not tie the portfolio returns to specific market events and trades.

Within the financial statements, the monetary costs that compose the ER are disclosed in total and on a per-share basis. Financial statements frequently itemize: management fees; other ongoing costs such as custody; performance fees, and notably total retrocessions paid to advisors and platforms. Commissions paid are available within the shareholder reports so that investors can estimate trading costs. Purchase and redemption fees are also easily found. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund.

Mutual funds are required to publish the top 50 holdings or all holdings that are more than 0.5% of the portfolio, whichever is greater. In practice, a significant number of fund companies provide full and complete disclosure of the portfolio holdings. This information is required to be published semiannually. In practice, more than 60% of Italian funds publish their full holdings monthly by sending them to Morningstar.

Funds are not required to provide the name and tenure of portfolio managers, and it is not common practice for fund companies to disclose this information, but some improvements have taken place in recent years. More and more frequently, we find managers' names on fund fact sheets or receive it upon request. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure also carries to the board and the management company, which also do not provide this information.

The Italian funds association, Assogestioni, has a centralized website, but it does not contain a repository of fund filings.

### **Fees and Expenses**

In Italy, investors have the ability to negotiate loads with the sales agent. It is rare for investors to pay financial-advice fees other than through retrocessions or commissions. Investors purchasing funds without advice can locate products without loads or trail commissions, but these constitute a small percentage of investor assets. In practice, companies maintain a maximum front load in their official documents. This figure is reported in the KIID. Then, they usually scrap this fee as marketing strategy. In fact, most of their income comes from management-fee retrocessions.

Funds in Italy are permitted to charge asymmetrical performance fees, but fees in most cases may only be levied if the performance is both positive and above the stated benchmark. However, it's not rare to see performance fee calculated against a price return index, but this is going to change with the implementation of Alternative Investment Fund Management Directive (AIFMD). All relevant terms of performance fees are disclosed such that an investor can estimate the ER based on fund performance.

In Italy, individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in Italy. The ERs of funds domiciled in Italy are generally around the same as foreign-domiciled funds, although local equity funds are much more expensive than foreign-domiciled funds.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.15%	1.86%	1.65%	0.15%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
1.09%	2.31%	1.58%	0.36%

### Sales and Media

In Italy, an investor has many distribution options, traditional brokerage houses, fund supermarkets, and banks and insurance companies being widely available. Traditional brokerage, as well as banks and insurance company sales channels, dominates fund distribution. It is estimated that between 20% and 50% of funds in Italy are sold through a distributor with an open- or guided-architecture platform. Starting from Dec. 1, 2014, a new distribution channel has been opened: Open-end funds are now allowed to list on the Italian Stock Exchange, and investors can buy shares without intermediation (like stocks). It's too early to give more insights on the impact on the industry. So far, only small asset managers are planning to list ad-hoc share classes.

Most mutual funds in Italy require investment minimums, but these are frequently waived for investors in automatic purchase plans. The median investment minimum of funds available for sale in Italy is less than USD 500, and the median investment minimum of Italy-domiciled funds is also less than USD 500.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Italy, this type of advertising is not allowed; investors are supposed to receive a Scheme Information Document (SID) prior to investment. This practice is strongly enforced. Additionally, in many instances consumers in the EU have cooling-off periods during which certain purchases can be canceled. Advisors and other fund salespeople in Italy are required to consider available equivalent products that are most suitable for the specific investor prior to giving advice.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are permitted in Italy but are not a known

practice. MiFID requires that all brokerage arrangements seek best execution and be for the benefit of fund shareholders.

In Italy, the practice of using sales contests to motivate sales of funds is allowed with little regulation and oversight, but compensating advisors (either monetarily or through awards) for selling particular funds is strictly regulated to protect investors. The regulations require that investments may only be sold when they meet the needs of the clients, so despite the existence of sales contests, advice is still required to be tailored to investor needs; this has been an area of recent regulatory focus.

Investors in Italy can find mutual fund articles in their newspapers on an almost daily basis. Our local analysts find that media focus on big, flagship funds that boast good returns and there is very little education, awareness, and concern about costs.

# Japan

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## Regulation and Taxation

Financial Services Agency (FSA) is the regulatory body responsible for the securities markets. "The FSA is responsible for ensuring stability of Japan's financial system, protection of depositors, insurance policyholders and securities investors, and smooth finance through such measures as planning and policymaking concerning the financial system, inspection and supervision of private sector financial institutions, and surveillance of securities transactions." The Securities and Exchange Surveillance Commission (SESC) is established under the FSA to independently conduct "market oversight including daily market surveillance, inspections of financial instruments firms, administrative civil monetary penalties investigations, disclosure document inspections, and criminal investigations into securities fraud."

In Japan, the mutual fund industry is governed by the Financial Instruments and Exchange Law and the Securities Investment Trust Law (also known as the Investment Trust and Investment Company Act). It is a comprehensive statute that sets out all of the regulatory authority and framework for the specific regulations promulgated by the FSA. In Japan, locally domiciled funds are generally overseen by the Investment Trusts Association (ITA), but foreign-domiciled funds available for sale in Japan are supervised by the JSDA. This difference causes a lack in uniformity of some disclosure information. The mutual fund industry is also self-regulated by the ITA with the mission "to protect investors and to contribute to the sound development of investment trusts and investment companies." Most regulations are enforced by the FSA. Japanese regulations are up-to-date, and regulations are regularly updated to reflect changes in the investment industry, but there is little proactive oversight identifying improprieties. Most enforcement actions are public in Japan. Fund advertising and sales practices are self-regulated by the ITA and the Japan Securities Dealers Associations (JSDA). The regulation and supervision of fund advertisements are perceived as effective and prevent misleading advertising.

All countries in this survey, including Japan, require funds to be audited by an independent party at least once a year. In Japan, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two may be from affiliated companies. However, even if the two are in the same financial group, inappropriate action would hardly hold because of the strict regulations.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. In Japan, this practice is allowed but only known to happen occasionally. There is no required disclosure and no requirement that these arrangements benefit fund shareholders.

In Japan, funds are structured as trusts or contractual funds. There is no requirement for this structure to have a board or any independence.

In Japan, there is no limitation on funds investing in securities issued in foreign countries.

Japan allows funds domiciled in other countries to register for sale in Japan. Foreign-domiciled funds are common in Japan, but investors prefer home-domiciled funds because of the wider analyst and media coverage of Japan-domiciled funds.

In Japan, there are specific tax incentives to encourage investors to save for retirement. The tax benefit is tied to an employee-defined contribution account rather than an investment fund. The underlying fund choices are identical to those available to fully taxable investors. Funds eligible for the tax-preferred retirement vehicle are subject to the same regulations as all other funds.

Investors in Japan can defer all taxes on income, dividends, and capital gains earned within funds until the liquidation of fund shares. When investors choose distribution, they are responsible for taxes when they received distribution. There are no additional taxes for typical fund investors. The result is that a hypothetical investment with a 6.29% pretax annualized return is only subject to long-term capital gains taxes upon fund liquidation. This reduces the gain by 0.33% annually.

Fund management services in Japan are subject to Value-Added Tax (VAT).

### Disclosure

Japan, like most countries in this survey, requires publication of a simplified prospectus. The Japanese term for this document is Koufu Mokuromisho (delivered prospectus). In most cases, these documents are for single funds, but certain types of series are permitted to be consolidated in a combined document. The simplified prospectus is typically between five and 15 pages in length; this is much shorter than we observed in prior years of this study. The simplified prospectus is supposed to be in plain language, but sometimes it does not succeed in this. The strategy section is sometimes sufficient for a professional to identify the specific investment approach and focus of the fund. There is a section on risk disclosure within the simplified prospectus, and these sometimes explain risks clearly for investors. Unfortunately, most funds continue to publish general investment risks rather than risks specific to the funds' investment policies.

The simplified prospectus does not present an Expense Ratio (ER) in percentage format, either on a historic or prospective basis. The expense presentation is provided in the annual report in monetary base and percentile terms, a development that began in December 2014. However, it is based on the average net asset value and is thus difficult to compare across different funds. The simplified prospectus does not contain an illustration of fees for a standard investment, but it does contain information on total commissions paid. Five-year returns are within the simplified prospectus if funds have track records of more than five years. The document seldom contains the name of the manager

and provides no specific information on tenure. The simplified offering document does not contain information about portfolio holdings.

All retail investment products in Japan are subject to the same disclosure requirements. Offering documents of funds are required to be updated annually. The financial statements within fund literature do not contain a comparison to prior-year periods. Funds in Japan typically provide investors with monthly shareholder reports that contain information about performance and top holdings. Semiannual and annual reports may be required, but the frequency of report generation is based on the type of fund. For instance, annual dividend funds need only file an annual report. These financial statements contain full portfolio holdings. Despite the frequency of monthly reports, the information within the manager's commentary is typically generic and fails to connect performance to investment decisions.

Although Japan does not publish an ER, the annual report contains the main expenses composing the ER in a standardized format. Each fund is required to show the price of management, administration, and other major expenses as the number of yen paid per 10,000 units invested. Knowledgeable investors can determine the costs of various fund services with a high level of specificity. Funds of funds have started to include all acquired fund expenses within the prospectus, but there is ambiguity within these regulations.

As mentioned above, full portfolio holdings are presented in the semiannual and annual reports, and the monthly shareholder disclosures typically contain top holdings. However, if a fund of funds invests in foreign-domiciled funds, sometimes semiannual and annual reports only show its top holdings.

Funds are required to publish the name of the portfolio managing company in the simplified prospectus as well as other fund literature. There is almost never information on the name and tenure of an individual fund manager. Our analysts observe that the fund industry has been strongly opposed to any disclosure of the managers' tenure or start date. In the past, we've reported that there has been high turnover of portfolio managers in Japan. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure carries over to the management company, which also does not provide this information.

Investors in Japan can gain access to all fund literature on a government-sponsored website and an ITA-sponsored website. However, these websites are both difficult to navigate, and it is difficult to locate the desired information.

### **Fees and Expenses**

In Japan, only large investors have the ability to negotiate sales loads with their financial advisors. Typically, brokerage firms do offer discounts on loads based on the size of the purchase. These are set by the end distributor and not the fund prospectus. In Japan, between 50% and 75% of available-for-sale funds report charging front loads and between 50% and 75% of domiciled funds report

charging a front load. It is rare for investors to pay for advice other than through loads or trail commissions. Funds without loads and trail commissions exist in Japan, but they are only a small part of investor assets. These products are typically only available from web-based distributors.

Funds in Japan are permitted to charge asymmetrical performance fees. All relevant terms of performance fees are disclosed, but the actual expense is aggregated with the management fee in historical reports.

In Japan, individual investors have the choice to invest in locally domiciled funds as well as foreign funds that choose to register in Japan.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.51%	1.65%	1.40%	0.26%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
1.51%	1.65%	1.40%	0.59%

### Sales and Media

In Japan, insurance products are the most popular fundlike product for investors to own. Our analysts believe this is because clients are depositors in insurance products rather than investors, and the term “insurance” indicates a lower level of risk. In Japan, an investor has access to most distribution options, including fund supermarkets, brokerage firms, banks, and insurance companies, as well as directly from the fund companies. Independent financial advisors are not common in Japan. The banks and brokerage sales channels dominate fund distribution, but there has been a movement by younger investors to online brokerage and direct sales from the fund companies, but the asset base is still small. It is estimated that more than 80% of funds in Japan are sold through a distributor with an open- or guided-architecture system.

Most mutual funds in Japan require investment minimums, and these are rarely waived for automatic investment plans. The typical investment minimum of funds in Japan is 10,000 units or JPY 10,000 initial investments.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. In Japan, this type of advertising is not allowed; investors are supposed to receive a Scheme Information Document (SID) prior to investment. This practice is strongly enforced. Licensed brokers in Japan are permitted to make any recommendation they want without consideration of equivalent products.

There is no regulation prohibiting directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds). However,

management companies state that they advocate best execution to avoid favorable treatment for distributors, and, in practice, custodians handle transactions, making directed brokerage difficult.

In Japan, fund-specific incentives for selling a fund are an accepted practice. Fund companies are known to pay for brokerage company advertisements in exchange for preferred placement by the brokerage. The practice of using sales contests to motivate the general sales of funds is an accepted practice, but it is not common. Both practices are regulated under the financial-services law but are not prohibited and not commented on in any specific sections.

Investors in Japan can find mutual fund articles in their newspapers on a weekly basis. These articles sometimes mention mutual fund fees when they are high, and they sometimes promote long-term investing.

# Korea

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## Regulation and Taxation

In Korea, the Financial Supervisory Service (FSS) is the main government regulatory authority overseeing and supervising financial institutions and the market. The FSS operates under the Financial Services Commission (FSC), and its primary function is the examination and supervision of financial institutions. Its regulatory reach can also extend to other oversight and enforcement functions as charged by the FSC and the Securities and Futures Commission. The fund industry is also self-regulated by the Korea Financial Investment Association (KOFIA) with the mission to contribute to the long-term development and enhanced competitiveness of the Korean financial investment industry. KOFIA also monitors fund advertising and sales practices in the industry.

The Korean fund industry is governed by the Financial Investment Services and Capital Markets Act. Korean regulations are generally up-to-date, and regulations are regularly updated to reflect changes in the investment industry. Enforcement actions by the regulator are comprehensive enforcement actions, but there is little proactive oversight identifying improprieties. Most enforcement actions are public in Korea. The regulation and supervision of fund advertisements is generally perceived as being effective at preventing misleading advertising.

All countries in this survey, including Korea, require funds to be audited by an independent party at least once a year. In Korea, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, and the two may not be affiliated companies.

In Korea, soft-dollar arrangements are only allowed for research (travel, equipment, and software are not relevant forms of compensation). Fund companies should disclose research expense out of the brokerage expense in the quarterly report to the investors. While the practice is allowed, it is only known to happen occasionally.

In Korea, most funds structured as investment trusts have a beneficiary general assembly, and funds structured as investment companies are required to have supervisory boards. Only the latter is required to have a minimum level of independence.

In Korea, there is no limitation on funds investing in securities issued in foreign countries. Korea allows the sale of funds domiciled in other countries, but they must register separately and UCITS funds do not receive automatic registration. Foreign-domiciled funds are available directly, but investors prefer funds domiciled in Korea. The available foreign-domiciled funds are most commonly used in fund-of-fund or master-feeder structures.

In Korea, there are specific retirement pension funds where the investor is eligible for a tax exemption. Initially, the taxes on the contributions are deferred. The tax benefits for retirement pension funds are provided by the retirement pension account. Investors can choose various pension products including bank deposits and the funds offered for the retirement pension system. Taxes on the contributions are deferred until the beneficiary begins to receive pension when he or she becomes 55. Any withdrawal other than pension shall be taxed for severance income. Other than the limitation of investment choices, retirement pension funds are subject to the same regulations as all other funds.

In Korea, investors are responsible for paying taxes on interest and dividends, but not on capital gains, which is consistent with direct investment in securities. There are no additional taxes on investment funds in Korea. Postliquidation returns of a hypothetical fund portfolio in Korea are 0.39% lower than a completely tax-free scenario's annualized total return of 6.29%. Unlike some countries in this study, fund management services in Korea are not subject to a Value-Added Tax (VAT) or services tax.

### **Disclosure**

In Korea, the simplified prospectus is a required document. It is required to pertain to only one fund at a time (with the exception of feeder funds, which contain information about its master funds in the same simplified prospectus). The language is often written in plain-enough language for an experienced investor to understand. The strategy and objective section provides enough information that a professional has a clear understanding of the fund's investment strategy. The simplified prospectus explains general risks to fund investment and provides various types of risks including market risk, security risk, counterparty risk, credit risk, price change risk, interest risk, derivatives investment risk, and so on. The simplified prospectus also provides risks specific to the fund, if any. The fund company shall identify the fund's risk among five levels from very high to very low depending on the issuer's judgement, which is not quantified. The Expense Ratio (ER) found in the simplified prospectus is a prospective ratio for new funds and a historic ratio thereafter. Also generally present within the simplified prospectus is a monetary illustration of fees based upon an assumption of standard monetary value and return.

The simplified prospectus contains trading costs in the form of explicit commissions. It also contains returns for standard periods, which in the majority of cases in Korea are one-, two-, three-, five-, 10-year, and since-inception returns. Some funds only show returns at the end of every fiscal year.

Disclosure on the simplified prospectus is less helpful when it comes to management of the fund. Fund companies are required to report the name of the current fund manager in the simplified prospectus.

At a typical length of 10-15 pages, with some more than 25 pages, the simplified prospectus in Korea is not concise enough to be friendly to investors. Monthly reporting of full portfolio holdings to KOFIA is a common practice in South Korea, but the full holdings are only provided to registered fund rating agencies under the agreement from fund companies. Only the top 10 holdings are typically available

for retail investors to review on a monthly basis. KOFIA discloses full holdings through a quarterly report on its website.

Prospectuses are required to be updated annually, as well as when there is a specific change or amendment.

In addition to the simplified prospectus, fund companies in Korea are required to provide quarterly reports to the investors. Investor reports typically include comparisons for the previous year. Fund companies are not required to publish a section on management's discussion of fund performance in shareholder reports. According to our analysts, the fund literature typically shows enough detail that an investor can understand which portion of fees pays for specific management and administrative expenses of the fund. Shareholder reports include the ER (generally with a prior-year comparison), and the monetary costs used to calculate this ratio are presented in financial statements. The ER includes acquired fund-of-fund expenses as well. Regulation requires that there be a uniform presentation of fees within fund literature.

Recent regulations have been introduced that also require the manager's management history for the past three years to be disclosed in the simplified prospectus and quarterly report whenever there is a change in management of the fund. This allows investors to verify whether recent portfolio returns can be attributed to the current manager, but this limits evaluation of longer periods. This information is usually available on the KOFIA website as a separate section. Disclosure of compensation of managers or the managers' level of investment in the fund are not required and rarely provided.

Investors in Korea can gain access to all fund literature on the government-sponsored websites, which are kept up to date and contain all the most recent fund literature.

### **Fees and Expenses**

In Korea, sales loads and breakpoints are stated in the prospectus, but in practice investors are able to pick and choose between sales agents for lower loads. It is uncommon for investors to pay for advice, and this is typically only done by high-net-worth individuals. Less than 25% of funds domiciled in Korea and less than 25% of funds available for sale in Korea report charging a front load. When purchasing funds without advice, investors are able to easily purchase funds with no loads or trail commissions (typically through the Internet), but these cases still make up a small percentage of fund purchases because of the fact that most investors purchase funds through their local banks, securities companies, and other distribution firms.

In 2013, fund supermarkets selling funds online have created more competition and resulted in lower fees and commissions.

Retail funds in Korea are not permitted to charge performance fees.

In Korea, individual investors have the choice to invest in locally domiciled funds as well as foreign funds that choose to register in Korea. The ERs of equity and fixed-income funds domiciled in the Korea are lower than those offered from foreign fund sponsors.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.39%	1.83%	1.38%	0.15%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.41%	1.60%	1.05%	0.15%

### Sales and Media

Traditional open-end funds are the preferred investment vehicle for investors in Korea. The primary fund distribution channels widely available to investors are banks and insurance companies, and brokerage firms with a guided-architecture system where a bank employee or salesperson offers from a reasonably wide variety of fund companies. In 2013, an open-architecture online supermarket for funds was launched, and this is beginning to influence the fee and commission schedules of the legacy channels. Also, funds may sometimes be bought directly from the fund company through the Internet. These investors are growing in number substantially but as of yet make up a small percentage of investor assets. It is estimated that more than 80% of funds are sold through a distributor with an open- or guided-architecture system.

In 2013, a fund sales rule was introduced for a two-year period that limits banks, brokers, and insurance companies to sales of 50% or less of their integrated, or highly related, funds provided by related asset management firms.

Most funds in Korea do not require an investment minimum. However, minimum investments are often imposed by distributors. The typical investment minimum amount is USD 100 for funds domiciled in Korea.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. In Korea, this type of advertising is not allowed; investors are required to receive a prospectus before purchase. By tradition, advisors generally consider all appropriate products when making an investment recommendation. In practice, this usually means that the advisors consider all products available through the distribution firms with which they are associated.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are permitted in Korea, but they must be disclosed and they are required by regulation to benefit the research of the fund. As previously stated, a practice closely related to directed brokerage was addressed by regulators in 2013, mandating that distributors shall not have sales of funds managed by affiliated fund companies exceed 50% of overall sales.

Investors in Korea can find fund articles in their newspapers on an almost daily basis. These articles sometimes mention fund fees when they are high, and they sometimes promote long-term investing (although what the writer considers long-term is often left unclear).

# Netherlands

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## Regulation and Taxation

The Netherlands Authority for the Financial Markets (AFM) is responsible for the supervision of financial institutions and the financial markets. The AFM is an autonomous administrative authority that falls under the political responsibility of the Ministry of Finance. The AFM defines its goals as “to promote the orderly and transparent operations of the financial markets, to promote transparency between market professionals, and to protect consumers.”

In addition to the AFM, De Nederlandsche Bank (DNB) is responsible for prudential supervision of financial institutions. Both the AFM and the DNB have roles in overseeing companies that offer saving. The AFM is the primary regulator for the funds industry.

The AFM is also the agency responsible for the regulation of fund advertising and sales practices. One of the AFM’s roles is to ensure that market professionals provide sufficient information to consumers. The AFM has a series of rules to govern the content of advertising with the aim to avoid misleading consumers.

All Dutch laws and regulations comply with the Markets in Financial Instruments Directive (MiFID), UCITS directive, and all other European Union directives on funds. The AFM website has information accessible for an investor to understand the laws and regulations of the fund industry.

As of the beginning of 2014, the Netherlands instituted a retrocession ban on investment funds; funds are no longer allowed to rebate advisors a portion of management fees to advisors and distributors. Additionally, the pan-European Alternative Investment Fund Managers Directive (AIFMD) has come into force.

The Ministry of Finance supervises the AFM and reports on its effectiveness. As of the AFM’s most recent annual report, it had approximately 540 employees supervising the financial industry of a country with approximately 17 million people. Certain types of enforcement actions are public in the Netherlands, but small actions are not necessarily disclosed. This information can be found on a page of the AFM website.

All countries in this survey, including the Netherlands, require funds to be audited by an independent party at least once a year. In the Netherlands, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two may be affiliated companies. UCITS and AIFMD both have protections ensuring appropriate division of responsibilities.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. In the EU, MiFID requires that all funds seek best execution, act in the interests of shareholders, and disclose all brokerage arrangements. While not a prohibition of soft-dollar arrangements, in practice this restricts their use in the Netherlands to actual research and services benefiting investors.

Funds domiciled in the Netherlands are not required to have boards of directors.

In the Netherlands, there is no limitation on funds investing in securities issued in foreign countries.

The Netherlands allows funds registered in compliance with the UCITS IV directive to be marketed to Dutch investors. Foreign-domiciled funds are common in the Netherlands, and both foreign- and domestic-domiciled funds are broadly distributed.

The Dutch government has a pension system to encourage individuals to invest in funds as a way to provide their own wealth in retirement. The system is made up of three separate pension plans: state-guaranteed pensions for everyone who spent their working life in the Netherlands (AOW); supplementary pensions that are arranged between the employee and the employer (very often industry pensions); and individual pension plans. Though beneficial regulations exist for individual pension plans, the majority of future pension income is expected to come from collective arrangements. Individual pensions in the Netherlands offer tax deferral, and the fund choices are similar to those of taxable funds, but some disclosure rules and other regulations have differences.

Dutch taxpayers face a type of wealth tax on most personal assets above EUR 21,330. Investment assets—regardless of actual returns—are assumed to earn a 4% rate. Investors pay a marginal tax rate upon the hypothetical 4% return. The wealth tax structure is considered similar to paying taxes on dividends and realized and unrealized capital gains annually. The effect of the wealth tax reduces a pretax return of 6.29% to an annualized aftertax return of 5.18%. Although the proceeds [of dividends and income are treated similarly, retail investors are subject to withholding taxes to prevent the Netherlands from becoming a tax shelter for foreigners. Those withholding taxes are refundable when investors file their tax returns.

In the Netherlands, management of all collective investment funds—both regulated and nonregulated—is exempt from Value-Added Tax (VAT), but investment advisory fees whether embedded or paid to an independent advisor are subject to VAT. These taxes increase the cost of investing.

### **Disclosure**

Most retail funds in the Netherlands are compliant with UCITS although a few retail and many institutional products fall under AIFMD. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document (KIID), Essentiële Beleggersinformatie (EBI) in Dutch. The KIID is required to pertain to only one fund at a time and is typically two pages long.

Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Expense Ratio (ER) with ongoing charges, a prospective percentage that, unlike the previous ER, excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. In practice, this is not uniformly enforced, and investors must often search for details and calculate the amount they would spend on performance fees on their own. In conclusion, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. The KIID does not contain any disclosure of trading costs.

The KIID contains past performance for standardized periods (typically the past 10 years) to allow investors to see the performance of the fund over time. It does not include the manager's name or tenure, making it difficult for investors to determine the connection between the manager and fund returns. The document also does not include any information on holdings, which means that investors are not able to connect the fund's stated strategy with the actual portfolio choices of the fund.

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end and exchange-traded funds. Other products such as exchange-traded notes, exchange-traded commodities, closed-end funds, and structured products have separate regulations. In the Netherlands, these funds follow the same disclosure requirements governed by the financial-services act if they are to be marketed to retail investors.

Financial statements for funds in the Netherlands typically provide a comparison to the prior year. In the Netherlands, fund companies must publish both annual and semiannual reports.

Shareholder reports typically contain a section on management's discussion of fund performance that is voluntarily provided and generally insightful for investors.

Regulation in the Netherlands requires that fund expense ratios, as ongoing charges be included in percentage in the prospectus and in actual nominal expenses in the annual report. Only limited itemizations of expenses are found in financial statements, including management fee and performance fees, and there are no longer trailers. Other charges such as custody or marketing expenses are not itemized. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund within ongoing charges in the KIID

Mutual funds are required to publish material long positions of the portfolio semiannually; these holdings can be found in both the semiannual and annual reports.

Portfolio-manager information is not required information in the Netherlands, but it is being provided more frequently than in the past. Typically, fund fact sheets and websites provide the name but not the tenure of the manager. No information on the compensation of individual managers or their investments alongside investors is available. The fund investments of the board members are required disclosure in the Netherlands.

The Netherlands does not have a website with an electronic repository of fund documents.

### Fees and Expenses

In the Netherlands, investors have the ability to negotiate loads with the sales agent, and platforms generally offer loads lower than the prospectus maximum. Since the ban on advisor retrocessions, investors now more frequently pay for advice directly to advisors rather than through rebates. Many sales channels have introduced services with advisory fees replacing the prior model that depended on rebates.

Funds in the Netherlands are permitted to charge asymmetrical performance fees. All relevant terms of performance fees are disclosed.

Individual investors in the Netherlands individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in the Netherlands. The ERs of equity and fixed-income funds domiciled in the Netherlands are lower than those offered from foreign fund sponsors. When the Dutch Retail Distribution Review (RDR) was implemented in 2014, investors were shifted from share classes with retrocessions into classes without retrocessions. Contrary to other markets that employed a commission ban only prospectively, the implementation in the Netherlands was immediate. This results in a drop in expenses from our 2013 study that are generally proportionate to the rebates paid to advisors. The below estimates reflect the best available data for funds available to local retail investors.

Money market funds are seldom used by individual investors in the Netherlands, as banks offer savings accounts with similar yields.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.12%	1.76%	1.49%	0.15%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.50%	0.80%	1.11%	0.35%

## Sales and Media

Investors in the Netherlands have most distribution options widely available, including fund supermarkets, brokerage firms, banks, and insurance companies, as well as directly from the fund companies. Online fund platforms now compete with the bank and insurance company sales channels for dominance of fund distribution.

With the breakup of a number of vertically integrated financial conglomerates, it is now estimated that more than 80% of funds in the Netherlands are sold through a distributor with an open-architecture system.

Most mutual funds in the Netherlands do not require investment minimums. With the Dutch RDR banning trailers, many foreign-domiciled funds have offered the institutional share class to investors in the Netherlands. The high minimums often associated with institutional classes are now banned in the Netherlands.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. This is against the law in the Netherlands. Investors are required to receive a Scheme Information Document (SID) prior to investment. The guidelines laid down by AFM require that advisors consider all appropriate products before making a recommendation. It is required, for example, that advisors make clear to clients why they would advise purchasing an actively managed fund over an ETF.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not permitted in the Netherlands.

In the Netherlands, the practice of using sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds is allowed with little regulation or oversight beyond the suitability requirements in MiFID. There is no required disclosure of conflicts of interest, but with bans on rebates, many conflicts are clearly evident. It is unclear how much the practice of sales contests continues.

Investors in the Netherlands can find mutual fund articles in their newspapers on a weekly basis. These articles sometimes mention mutual fund fees when they are high, and they sometimes promote long-term investing.

# New Zealand

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## Regulation and Taxation

In New Zealand, the Financial Markets Authority (FMA) is the main regulator of investments, and its role is to “promote investment markets that are fair, efficient and transparent.” The FMA also regulates securities exchanges, financial advisors and brokers, trustees, and issuers—including issuers of KiwiSaver and superannuation schemes. The FMA was established in 2011 under the Financial Markets Authority Act 2011 and replaced the Securities Commission.

The regulations governing New Zealand’s mutual funds are the Financial Markets Conduct Act, Unit Trusts Act, Superannuation Act, KiwiSaver Act, and Securities Act. Other applicable regulations are the Fair Trading Act for advertising of investment products and the Financial Reporting Act.

FMA seeks to have the following impacts on financial markets:

- ▶ Financial markets participants have clear and well-understood responsibilities.
- ▶ Investors have access to the information they need to make informed decisions.
- ▶ Investors clearly understand and have confidence in the regulation of financial markets.
- ▶ Emerging risks to FMA’s objective are identified, and appropriate responses are developed.
- ▶ Financial markets are efficient, resilient, and internationally attractive.
- ▶ The costs and benefits of the regulatory regime are proportionate.

The FMA is also the organization responsible for regulating fund advertising and sales practices.

The largest overhaul of securities law since 1978 has meant sweeping changes to the investment landscape in New Zealand. The Financial Markets Conduct Act (FMC Act) governs how financial products are created, promoted, and sold and the ongoing responsibilities of those who offer, deal, and trade them. It aims to facilitate capital market activity in order to help businesses fund growth and individuals reach their financial goals. It covers all financial securities issues from debt issues, equity issues, derivatives, and all managed funds. The act has created a register to which security issuers must post ongoing information about their securities, including semiannual full portfolio holdings updates, which brings the country closer to global best practices. Previously there was no obligation on managers to provide data on their holdings at all. A short form Product Disclosure Statement (PDS) and an even shorter form Key Information Document (KID) with strict word limits are designed to allow investors to quickly identify important characteristics of funds, minus all the wordy distractions.

Securities previously issued under the 1978 securities law will have a two-year transition period to be compliant under the new regime. Any new issues must be issued under the FMC Act.

The investment industry is also somewhat governed by several best-practices guidelines issued by its funds association, the Financial Services Council (FSC). This organization (previously called the Investment Savings and Insurance Association) represents the views of various fund managers and insurance companies. Because of the significant regulation changes, the FSC no longer appears as active in promoting best practice guidance around reporting and disclosure.

New Zealand regulations are up-to-date, and the FMA is now sufficiently resourced as a result of a significant increase in funding, allowing it to adequately regulate fund advertising and sales with comprehensive enforcement actions. Most enforcement actions are public in New Zealand.

All countries in this survey, including New Zealand, require funds to be audited by an independent party at least once a year. In New Zealand, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two may be affiliated companies.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. This is an accepted practice in New Zealand, and there is no standard disclosure.

New Zealand allows funds registered in Australia to receive simplified registration, and funds from other domiciles may fully register in New Zealand. Foreign-domiciled funds are somewhat common, but investors still prefer home-domiciled funds.

In New Zealand, funds are not required to have boards of directors, but they must have an independent trustee.

In New Zealand, there is no limitation on funds investing in securities issued in foreign countries.

To encourage working individuals to voluntarily save for retirement over and above their Government Superannuation Fund, in 2007 the New Zealand government introduced KiwiSaver, a government-subsidized, defined-contribution retirement savings plan offered by private-sector providers. The government subsidy is in the form of a tax credit that is deposited directly into the investor's KiwiSaver account. In addition to subsidizing investment fees, the government is currently offering a one-off NZD 1,000 contribution when the scheme is set up and a matching contribution of NZD 20 per week to a maximum of NZD 521. Funds available for KiwiSaver are identical to those available in taxable accounts; the account carries the tax credit, not the fund.

In New Zealand, the tax system for funds is quite complex, but in most cases the tax is paid at the fund level so it's a relatively easy exercise for investors. There are a number of taxable scenarios depending on the geography of the investment and the domicile of the fund an investor chooses. Investors provide their fund company with their marginal investment tax rate, and the company

withholds taxes and pays the government on behalf of the end investor. Investors are responsible for taxes upon interest earned, local dividends, and capital gains earned on domestic shares annually at a marginal rate specific to capital income. The most common taxation method for foreign equity holdings is the Fair Dividend Rate (FDR); here, offshore investments accrue taxes based on an assumed 5% FDR. The rate is a substitute for actual calculation of dividend and realized capital gains. Investors also do not face taxes upon the liquidation of fund shares. There are no other taxes on fund investments. The returns of a hypothetical portfolio held for five years are reduced from a pretax 6.29% to an aftertax return of 6.08%. This 21-basis-point annual reduction is lower than is found in most countries in the survey.

Fund management services in New Zealand are subject to Goods and Service Tax (GST). This increases the cost of fund management.

### **Disclosure**

The Investment Statement has been replaced by the Statement (PDS), which now serves as the required simplified prospectus in New Zealand. The PDS is not required to pertain to only one fund at a time but is typically provided in this manner. It contains useful educational information on investing, and it cannot be more than 12 pages, or 30,000 words, in length. It must include a Key Investment Statement that is no more than two pages long. It is generally written plainly enough for an experienced investor to understand. It also contains a section clearly describing the strategy and objective of the fund with enough detail for an investor to comprehend the fund's investment policy. The PDS contains information on risks that are relevant and written in an understandable format.

The PDS also list fees an Expense Ratio (ER) and contains a numerical example of fund expenses including management fees, ongoing charges, purchase and redemption fees, and performance fees. However, no trading cost measure, marketing and distribution, or embedded advice fees are included. It is not easy for investors to identify which portion of fees is allocated to each component cost in the total figure. Acquired fund expenses are included in a prospective ER of fund of funds. The manager must calculate a synthetic ER historically, which includes subfund fees. The manager must also show all fees prospectively in the PDS, if known.

In New Zealand, fund companies must now publish quarterly reports. The management's discussion is not a required inclusion in the quarterly reports, but performance over the past year compared with a benchmark is required.

Perhaps the greatest improvement since our 2013 survey is that mutual funds in New Zealand are now required to publish a full and complete disclosure of portfolio holdings semiannually, within four months of the September and March quarter ends. In practice, most funds will work on becoming "under the act" in the latter part of the two-year transition period, so full holdings probably won't flow in reality until 2016. Under Clause 53(1)(j) of Schedule 4 of the FMC Regulations and Clause 54 of Schedule 4, it must provide a complete list of individual assets of the fund as of a stated date

(which is not earlier than 40 working days before the date of the PDS) and, against that list, information about each individual asset including the name of the asset, the value of the asset as a percentage of the specified fund's net asset value, and, if applicable, a security identification number, ticker symbol, or exchange code used to identify the asset.

Portfolio-manager information is now required information in New Zealand. The fund update must disclose the following information in relation to each of the five persons who are directors or employees of the manager, of the investment manager, or of a related body corporate of either of them who have the most impact on investment decisions in relation to the specified fund as at the relevant date (for example, the chief investment officer, the chairperson of the investment committee, and the senior investment analyst in relation to the fund): (a) the person's name; (b) the person's position; (c) how long the person has been in that position; (d) if relevant, the person's previous position and with whom that position was held; and (e) how long the person was in that previous position. No information on the compensation of individual managers or their investments alongside investors is available.

New Zealand also now has a website with an electronic repository of fund documents, but the website is in its early development phase and is not fully populated.

### **Fees and Expenses**

In New Zealand, investors have the ability to negotiate loads with the sales agent. In late April 2010, the FSC announced a plan to phase out commissions. This was directly spurred by a similar announcement in Australia. Currently only a moderate percentage of investor accounts pay for advice outside of commissions and expenses.

In New Zealand, between 50% and 75% of available-for-sale funds report charging front loads, and between 50% and 75% of home-domiciled funds report charging a front load. When purchasing funds without advice, investors are able to gain access to funds without loads or trail commissions, but as of yet these funds make up only a small part of retail investors' assets.

Funds in New Zealand are permitted to charge asymmetrical performance fees. Most relevant terms of performance fees are disclosed such that an investor can accurately estimate expenses, though there is no need to disclose the frequency of reset-capable performance-based fees. Performance fees have become more common in New Zealand in recent years.

In New Zealand, individual investors have the choice to invest in locally domiciled funds as well as Australian funds and other foreign funds that choose to register in New Zealand.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
0.64%	1.57%	1.41%	0.63%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.64%	1.46%	1.41%	0.63%

### Sales and Media

In New Zealand, open-end mutual funds are the most common fundlike vehicles for investors to own. The range of closed-end and exchange-traded funds available do not cover all market structures, and competing insurance products are not considered equivalent by the investing public.

In New Zealand, investors have multiple distribution options widely available, including independent advisors, brokerage firms, banks, and insurance companies, as well as directly from the fund companies. Independent advisors along with banks and insurance companies dominate fund distribution. It is estimated that between 50% and 80% of funds in New Zealand are sold through a distributor with an open-architecture system.

Mutual funds in New Zealand typically require investment minimums, but these are frequently waived with participation in an automatic investment plan. The median investment minimum of funds available for sale in New Zealand is more than NZD 2,000, and the median investment minimum of New Zealand-domiciled funds is more than NZD 2,000.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. In New Zealand, this type of advertising is not allowed. Investors must receive a Scheme Information Document (SID) prior to investment. This practice is strictly enforced.

Advisors are required by regulation to consider all similar products when making a fund recommendation.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not a known practice in New Zealand.

In New Zealand, the practice of using sales contests to motivate the general sale of funds is allowed with little oversight or guidance. The practice of compensating advisors (either monetarily or through awards) for selling particular funds is also allowed, although it is required to be disclosed and the regulator exercises moderate oversight.

Investors in New Zealand can find mutual fund articles in their newspapers on a weekly basis. These articles sometimes mention mutual fund fees when they are high, but only a select few commentators promote long-term investing.

# Norway

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## Regulation and Taxation

Finanstilsynet is the Financial Supervisory Authority of Norway; it was renamed from Kredittilsynet in December 2009. Finanstilsynet is an independent government agency. According to its website it is: "...responsible for the supervision of banks, finance companies, mortgage companies, insurance companies, pension funds, investment firms, securities fund management, and market conduct in the securities market, stock exchanges and authorized marketplaces, settlement centers and securities registers, estate agencies, debt collection agencies, external accountants, and auditors." The regulation governing Norway's mutual funds is the Mutual Fund Act of 2012. Additionally, as a member of the European Economic Area (EEA), Norway has laws that conform to European Union directives including UCITS IV and MiFID.

The investment industry is also self-regulated by the Norwegian Mutual Fund Association (VFF).

The Securities Commission is also the organization responsible for regulating fund advertising and sales practices.

Norwegians can find information on the laws and regulations providing standardization and protection in investment products through a handful of websites, including: <https://www.finansportalen.no/>; <http://www.forbrukerradet.no/> and <http://www.finanstilsynet.no/no/Venstremeny/Forbrukerinformasjon/>. The information on the laws is important, as they have been updated frequently in recent years. In the two years since our prior study, the AIFMD has been put into force, which is supposed to level the playing field between different entities. Some wrappers still distribute similar vehicles under a different law (insurance laws), but in practice insurance and noninsurance distribution appear broadly similar and follow the same set of rules and standards. Another change is the change in legislation regarding "special funds." Special funds were introduced along with a large overhaul of the Norwegian Mutual Fund Act of 2012, and special funds were only allowed to market toward investment professionals. At the introduction of AIFMD, special funds were also opened for retail clients. "Special funds" have the same basic framework as UCITS funds but have a few particularities such as being able to have low liquidity and/or alternative strategies not generally permitted in UCITS.

Another arm of the government audits the regulator, but there is no known independent study on the effectiveness of the regulator. Finanstilsynet has approximately 280 total staff, including enforcement personnel, for a country of around 5 million people. Most enforcement actions are public in Norway, and these can be found on the regulator's website.

All countries in this survey, including Norway, require funds to be audited by an independent party at least once a year. In Norway, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two may be affiliated companies.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. As a member of the European Economic Area, Norway has laws and regulations that comply with MiFID; this directive requires that soft-dollar arrangements be used for the benefit of investors and be disclosed, and that managers seek best execution of trades. Norway allows soft-dollar arrangements that adhere to these restrictions.

In Norway, funds are required to have a board of directors that holds a general election every year, and there is a minimum level of independence required.

In Norway, there is no limitation on funds investing in securities issued in foreign countries.

Norway allows funds registered in compliance with the UCITS IV directive to be marketed to Norwegian investors.

To encourage working individuals to voluntarily save for retirement over and above the public pension system, there are tax benefits. In 2006, the government introduced a supplemental defined-contribution plan. Employers are required to make a contribution equal to or greater than 2% of employees' earnings unless the employee is covered by a defined-benefit scheme with equal or greater benefits. Individuals can add supplemental contributions that have tax benefits as well. Defined-contribution plans in Norway offer broadly the same choices of open-end and insurance-linked funds that are available for taxable investors; the accounts carry the tax benefit rather than the funds. Most frequently, the retirement plans use the same share classes in an insurance wrapper, but "portfolios" also are offered that are not mutual funds according to the mutual fund act.

In Norway, taxes upon interest income earned by fixed-income funds are collected annually at an ordinary income rate separate from the personal income tax rate, which includes higher brackets for some employment income. Fund investors are responsible for taxes on corporate dividends only if the fund distributes, which is not required. Long-term capital gains are taxed only upon the sale of fund shares, and the rate is lowered based upon indexation of cost basis. A wealth tax is also applicable in Norway. In Norway, our hypothetical investment with a 6.29% annualized pretax return has an aftertax return of 4.21%, which amounts to a reduction of 2.08% annually—one of the highest tax burdens in the survey.

Fund management services in Norway are not subject to a Value-Added Tax (VAT).

## Disclosure

In Norway, fund offering documents are known as articles of association and are generally one-time documents. Non-UCITS funds sold in Norway are subject to the same disclosure requirements as UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document (KIID), Nokkelinformasjon in Norwegian. The KIID is required to pertain to only one fund at a time and is required to be two pages long. Regulations require that the KIID be written in plain language. Funds must provide the KIID in Norwegian if the fund is to be marketed to retail investors. The KIID contains a section describing the strategy and objective of the fund, the details provided are sufficient to broadly understand the investment strategy, but not the specific style of the manager. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Expense Ratio (ER) with ongoing charges, a prospective percentage that, unlike the previous ER, excludes performance fees. The KIID is required by regulation to include descriptive text that explains the performance fee. In practice, this is not uniformly enforced, and investors must often search for details and calculate the amount they would spend on performance fees on their own. In conclusion, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. The KIID does not contain any disclosure of trading costs.

The KIID contains past performance for standardized periods (typically the past 10 calendar years) to allow investors to see the performance of the fund over time. It does not include the manager's name or tenure, making it difficult for investors to determine the connection between the manager and fund returns. The document also does not include any information on holdings, which means that investors are not able to connect the fund's stated strategy with the actual portfolio choices of the fund.

All investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. The Norwegian implementation of AIFMD intends to apply equivalent disclosure for all funds, but it is not exactly parallel. Fund companies must publish both annual and semiannual reports, and the financial statements within these shareholder reports contain a prior-year comparison. Although not required, some fund companies generally provide a useful discussion of fund performance within fund literature, while others may have only generic market comments. Anecdotally, we see that the best information tends to be provided by the independent fund sponsors rather than those that are part of the large financial conglomerates.

Within the financial statements, the monetary costs that compose the expense ratio are disclosed in total only and investors can rarely tell what portion of expenses pays for which fund services. It is not easy for investors to tell how much is being paid for the major expenses. It has been a common

in Norway to bulk all charges into a “management fee.” This fee encompasses most costs except trading costs and performance fees. In fact, this fee was very close to the current “ongoing charge” that is required in EU/EEA. Description of how the performance fee works is typically adequate, while the overall annual charge is sometimes reported and sometimes not. Investors have to dig into the financial statements and do the calculations in the cases where the performance fees are not explicitly mentioned. Trading cost information is infrequently disclosed in any manner. There is generally a uniform presentation of fees and expenses in the form of ongoing charges in the KIID. Pan-European regulations require the inclusion of acquired fund expenses when more than 10% is invested in another fund; this is listed in the prospective ongoing charges, but not in the financial statements.

Mutual funds are required to publish full portfolio holdings information semiannually, but most funds provide this information on a monthly basis.

Portfolio-manager information is not required information in Norway, but many funds provide managers’ names within fund promotional materials. The manager’s tenure is usually not provided. No information on the compensation of individual managers or their investments alongside investors is typically available. Although the compensation of managers is not directly available, the government publishes the tax information of all citizens including wealth, taxable income, and taxes paid on a government website.

In an improvement from prior studies, Norwegian investors can gain access to fund documents through a government-sponsored financial website.

### **Fees and Expenses**

In Norway, stated loads are rarely negotiable with the sales agent. But it is common practice for distributors to offer breakpoints, reductions in loads based upon the size of the fund or platform investment. Our analysts observe that loads are low and have come under pressure from competition. Investors in Norway rarely pay for advice in addition to loads and ERs. In Norway, more than 50% and 75% of available-for-sale funds report charging front loads and between 50% and 75% of home-domiciled funds also report charging a front load. Funds with no loads are virtually unavailable to retail investors.

Norway is one of only a few countries in this survey that requires any performance fees paid to fund advisors to include a symmetrical reduction in fees for underperformance, also known as fulcrum fees. Fulcrum fees are better investment practices than asymmetrical performance fees. The terms of fulcrum fees can be complex and poorly disclosed, but sufficient information is available for a general understanding. Fulcrum fees apply to UCITS and a non-UCITS local retail open-end structure known as Special funds domiciled in Norway, but other AIFMD funds can charge asymmetrical performance fees.

Investors based in Norway, individual investors have the choice to invest locally domiciled funds as well as UCITS funds with distribution operations in Norway. ERs of funds domiciled in Norway are lower than those offered from foreign sponsors.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.31%	1.90%	1.49%	0.15%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.50%	2.00%	1.12%	0.40%

### Sales and Media

Recently, banks have begun offering more funds from external advisors. Norwegian investors have multiple distribution options widely available, including fund supermarkets, banks, and insurance companies, as well as directly from the fund companies. The direct distribution and bank and insurance company sales channels dominate fund distribution. It is estimated that less than 20% of funds in Norway are sold through a distributor with an open-architecture system.

Mutual funds in Norway typically require investment minimums, but these are frequently waived with participation in an automatic investment plan.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. In Norway, this type of advertising is not allowed; investors are supposed to receive a KIID. It is common practice for fund applications to require a signature (or digital signature) acknowledging receipt of fund offering documents and the implications of investing in the fund. Advisors and other fund salespeople in Norway can technically make any recommendation they feel is appropriate without considering equivalent products available that are more suitable for the specific investor. However, advisors are required to comply with MiFID rules, and this particularly true in considering equal funds with different fees. The FSA has specifically required advisors to elect the fund with the lower costs in those cases in order to comply with MiFID. MiFID requires disclosure of certain conflicts of interest, but it is not clear whether all conflicts are currently covered by the FSA circulars.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not prohibited in Norway, but they are not a known practice. MiFID requires that all brokerage arrangements seek best execution and be for the benefit of fund shareholders.

In Norway, the practice of using sales contests to motivate general sales of funds is not allowed. Compensating advisors (either monetarily or through awards) for selling particular funds is also prohibited by regulation. Our analysts in Norway express higher confidence in the effectiveness of Norway’s application of MiFID than many other European fund analysts do for their own countries’ applications.

Investors in Norway can occasionally find mutual fund articles in their newspapers. This is less frequent than is reported in many other markets.

# Singapore

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## Regulation and Taxation

Monetary Authority of Singapore (MAS) is the regulatory body responsible for supervision over money, banking, insurance, securities, and the financials sector in general. It is the central bank of Singapore. Its mission is “to promote sustained noninflationary economic growth and a sound and progressive financial centre.” Its basic functions include conducting “integrated supervision of financial services and financial stability surveillance” in addition to other responsibilities associated with a central bank. The Code on Collective Investment Schemes (CIS Code) is issued by the MAS pursuant to the Securities and Futures Act (SFA), and it sets out regulation of the management, operation, and disclosure of funds.

In addition to the MAS, there is a trade-industry body called the Investment Management Association of Singapore (IMAS), whose members include licensed fund management entities in Singapore. IMAS regularly issues voluntary codes and guidelines on global best practices to promote growth and development of the funds industry.

MAS is also the organization responsible for regulating fund advertising and sales practices.

Regulations in Singapore are up-to-date, with the regulator publishing supplemental regulations to fill gaps in earlier regulations as required. The regulator actively investigates improprieties, and most enforcement actions are public in Singapore. The regulation and supervision of fund advertisements are perceived as effective and includes a code of best practice issued in 2006.

All countries in this survey, including Singapore, require funds to be audited by an independent party at least once a year. In Singapore, fund assets are required to be kept by a custodian. The custodian is appointed by the Trustee of the scheme, not the fund company. In practice, most funds use independent custodians, but a few exceptions occur in which the custodian and the fund manager are separate business entities that belong to the same parent holding company. The MAS, as well as IMAS, have regulations that try to mitigate conflicts of interest.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. In regard to soft-dollar practices, the CIS Code restricts their use and requires the disclosure of soft dollars received from each broker in the semiannual and annual reports. In the case of Singapore, the CIS Code restricts the use of these practices as follows:

“The manager should not retain soft dollars in the management of the scheme unless the following conditions are met:

1. The soft dollars received can reasonably be expected to assist in the manager’s provision of investment advice or related services to the scheme.
2. Best execution is carried out for the transactions.
3. The manager does not enter into unnecessary trades in order to achieve a sufficient volume of transactions to qualify for soft dollars.

The receipt of goods and services such as travel, accommodation, and entertainment does not meet the condition set out at chapter 3.2(h)(i) and is prohibited.”

In Singapore, funds are required to appoint an independent Trustee. The Trustee ensures that the fund is managed according to the trust deed to minimize the risk of mismanagement by the fund manager.

In Singapore, there is no limitation on funds investing in securities issued in foreign countries.

Singapore allows foreign funds to register for sale in Singapore. Additionally, funds registered in compliance with UCITS receive streamlined registration in Singapore. Foreign-domiciled funds are common in Singapore, and investors are fairly neutral of domicile when making an investment choice.

To encourage working individuals to voluntarily save for retirement over and above their Central Provident Fund (CPF) savings, which is a compulsory government-managed savings scheme, the Singapore government offers tax deferral for investments in a Supplementary Retirement Scheme. The CPF was set up in 1955. Monies in a CPF account can be used for housing, education, retirement, and other government-authorized uses. CPF investments can include many investment choices, but there are additional regulations on CPF-approved investments. CPF contribution rates are high, up to 20% of salary from the employee and 17% from the employer, subject to a cap.

In Singapore, individual investors not in the business of trading securities are exempt from capital gains taxes and interest. Additionally, dividends earned within CPF funds are exempt from taxes. In addition to exemptions for CPF dividends, dividends from foreign companies, and a variety of other classes of companies and savings schemes are also exempt from taxes. Interest earned from approved banks and funds is also exempt from taxes. Mutual fund investors are generally exempt from all investment taxes in Singapore. A hypothetical five-year fund investment has identical pretax and aftertax returns of 6.29%.

Fund management services in Singapore are subject to the Goods and Services Tax (GST).

## Disclosure

In Singapore, prospectuses contain a stand-alone Product Highlight Sheet. Investors must receive both a Product Highlight Sheet (PHS) and full prospectus before making an investment. They are typically accompanied by a fact sheet of one to two pages containing additional performance information. We consider the combination of a PHS and fact sheet as Singapore's simplified prospectus. The PHS is required to be four pages or fewer but can also include an additional four pages of diagrams. They are required to pertain to only one fund at a time.

The PHS and fact sheet are required to be written in plain language without industry-specific jargon or legalese. The strategy section in the PHS includes sufficient information for professionals to identify the investment strategy used by the portfolio managers. Risks are generally explained clearly within the document and are specific to the fund in question rather than being general.

Expense ratios (ERs) are presented on a historic basis within the simplified prospectus. There is no monetary illustration of the effects of fees on a standard assumed return, but the fees are laid out clearly in general. The PHS and fact sheet do not contain mention of trading costs within the fund. Returns are included in the fact sheet as well as in the prospectus, although only the prospectus discloses returns in the form of standardized periods. The simplified prospectus and fact sheet are not required to disclose manager name or tenure on the fund, although manager name and relevant professional experience overall is provided in the full prospectus. The fund fact sheet typically lists the top 10 holdings.

All retail products are subject to the same disclosure requirements in Singapore. Offering documents are only updated when the document is amended or changed. Fund companies must publish both annual and semiannual reports. Management's discussion of performance is required information, and our local analysts observe that fund companies generally provide a useful discussion that ties fund performance to fund positions. A typical annual report reviewed included market commentary tied to the fund's specific performance, clear and specific soft-dollar disclosure, an independent trustee's report, audited financial statements with a detailed itemization of fees within the notes, and a full portfolio.

The regulation in Singapore does require that funds present the current and prior years' ER; however, based on the information provided, investors may be able to determine which portion of fees paid by investors pays for which fund services. The turnover ratio is provided as a proxy to estimate the cost of trading securities. Fees are presented in a uniform format, although investors must search to find itemized expense information. The ER includes acquired fund expenses. Funds in Singapore do not typically include a monetary example of the impact of fees.

Mutual funds are required to publish full portfolio holdings information semiannually.

The name of the portfolio manager along with a professional history is required information in Singapore. No information on the compensation of individual managers or their investments alongside investors is available.

In Singapore, MAS hosts a website for Offers and Prospectuses Electronic Repository and Access (OPERA). As the name implies, OPERA hosts prospectuses and not all fund literature.

### Fees and Expenses

In Singapore, stated loads are generally negotiable with the sales agent. Fund literature states maximum sales loads, and distributors market funds at reduced commissions, but small investors do not actively negotiate on their own behalf.

It is possible but rare for investors to pay for advice other than through commissions and or retrocessions. In Singapore, more than 75% of available-for-sale funds report charging front loads, and likewise more than 75% of locally domiciled funds report charging a front load. Funds with no loads or retrocessions exist in Singapore but are difficult for investors to locate and make up a small percentage of assets.

Funds in Singapore are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. Terms of performance fees are clearly stated so an investor reviewing a fund's performance can estimate costs for the current year. There is a requirement for a high-water mark for performance fees where the fulcrum fee calculation method is not used.

Singaporean individual investors have the choice to invest in locally domiciled funds as well as foreign funds that choose to register with MAS. In Singapore, ERs of funds domiciled in Singapore are in general lower than those offered from foreign advisors.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.39%	1.90%	1.69%	0.27%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.79%	1.73%	1.43%	0.50%

### Sales and Media

In Singapore, funds and insurance-linked funds are the most common fundlike vehicles for investors to own.

Singaporean investors have most distribution options widely available, including independent advisors, brokerage houses, fund supermarkets, and banks and insurance companies. Bank and

insurance company channels dominate fund sales with fund supermarkets also popular. It is estimated that more than 80% of funds in Singapore are sold through a distributor with an open-architecture system.

Funds in Singapore typically require investment minimums, but these are frequently waived or reduced with participation in an automatic investment plan. The median investment minimum of funds available for sale in Singapore is between USD 1,000 and 2,000. The median investment minimum of Singapore-domiciled funds is also between USD 1,000 and 2,000.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are prohibited in Singapore.

In Singapore, the practice of using sales contests to motivate general sales of funds and the practice of compensating advisors (either monetarily or through awards) for selling particular funds is allowed under strict regulation. The regulations are found under the fair dealing provisions of the financial advisors act.

A series of new requirements have now been released following the Financial Advisory Industry Review (FAIR), which includes a balanced scorecard requirement for the remuneration of financial advisors as opposed to pure sales measures. These new requirements have started to be implemented and will be enforceable in 2016.

There is limited media coverage of mutual funds in Singapore, with investors finding mutual fund articles in their newspapers only occasionally.

# South Africa

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## Regulation and Taxation

In South Africa, the Financial Services Board (FSB) is an independent institution established by statute to oversee the South African nonbanking financial-services industry in the public interest. The supervisory authority of the FSB includes collective investment schemes, financial-services providers, insider trading, insurers, nominee companies, retirement funds, and friendly societies. The enforcement committee of the FSB is empowered to adjudicate alleged misconduct. The enforcement committee has the power to enforce unlimited penalties, compensation, and cost orders, and its actions are enforceable as if the Supreme Court of South Africa had ruled. The FSB website has thorough, understandable descriptions of its duties and responsibilities. It provides easy access for investors to file complaints, find relevant legislation, and receive consumer education among its other duties.

The regulations that govern the fund industry are codified in the Collective Investment Schemes Control Act 45 of 2002 (CISCA). This act outlines permitted content for advertising, marketing materials, and subscription of funds in broad terms. Also included are the requirements of a fund's deed, the South African equivalent of a prospectus, and other required fund literature.

The Association for Savings and Investment South Africa (ASISA) is a self-regulatory body that works with the fund industry. ASISA has codes of standards and practices that its members must adhere to.

FSB is also the organization responsible for regulating fund advertising and sales practices.

South African regulations are somewhat up-to-date, but they can be delayed and only partially address known problems.

Since our 2013 study, the following relevant actions have been enacted:

- ▶ Board Notice 257 of 2013 sets the conditions under which foreign collective investment schemes may be marketed.
- ▶ Collective Investment Schemes Control Act was amended in 2014 to obtain approval of delegation of functions by a scheme manager.
- ▶ Board Notice 90 amended investment power and limits.
- ▶ Board Notice 92's new determination of advertising, marketing and disclosure requirements became effective March 1, 2014.

Most enforcement actions are public in South Africa. The regulation and supervision of fund advertisements is adequate.

All countries in this survey, including South Africa, require funds to be audited by an independent party at least once a year. In South Africa, fund assets are required to be kept by the trustee. The trustee performs the function of custody as well as other roles. Trustees are required to be independent companies without any affiliation.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. Soft-dollar arrangements are an accepted practice in South Africa, but funds with these arrangements must disclose them. Additionally, soft-dollar arrangements are required by regulation to benefit research of the fund.

In South Africa, funds are required to have independent trustees, rather than boards of directors, that are responsible for ensuring that funds follow their founding documents.

In South Africa, funds are subject to exchange controls. Each fund company may invest a certain percentage of assets overseas. (This is at the firm level and not the fund level.)

South Africa allows foreign funds to register for sale to its citizens. Foreign-domiciled funds are somewhat common in South Africa, but under exchange-control legislation investors are restricted in the amount of capital they may invest overseas. Funds are also subject to exchange-control legislation. For individual investors, locally domiciled funds that invest overseas do not count toward the personal exchange-control legislation limits.

There are tax incentives to save for retirement in South Africa, and tax-free savings accounts are now available for nonretirement savings. Three types of retirement funds qualify for tax incentives: pension funds, provident funds, and retirement annuities. Individuals may deduct up to 15% of their taxable income for contributions to retirement annuities. There are no taxes on retirement annuity assets. Retirement annuities must have guaranteed components and follow the Pension Fund Act rather than Cisca. Investment choices available in retirement annuities can be identical to those outside of the annuity wrapper, but the annuity component is required.

In South Africa, investors are responsible for taxes on interest income at the standard income tax rate. Foreign source dividends are also generally taxed at an individual's income tax rate. Domestic dividends are taxed at a lower rate reserved for that source of income. Capital gains earned within investment funds are not subject to annual taxation and accrue in the fund's value until sale of the fund. Upon liquidation of the fund investment, the first ZAR 30,000 of income considered capital gains are excluded from income; additionally, there are maximum implied rates keeping long-term capital gains tax rates significantly lower than income tax rates despite high stated rates upon the

excess. Shares held longer than three years are considered capital gains. There are no additional taxes on fund savings. In South Africa, our hypothetical five-year fund investment generates aftertax annualized returns of 5.08%, a reduction of 1.21% annually from the pretax returns of 6.29%.

Fund management services in South Africa are subject to a Value-Added Tax (VAT).

### **Disclosure**

Several new requirements, a result of the Retail Distribution Review (RDR), are scheduled to be released in 2015 that will improve several points of disclosure and propose reforms to the regulatory framework for distributing retail financial products to customers in South Africa. As these requirements are still in the implementation phase, Morningstar has elected to place the proposed rules in our scoring model for this survey, but the areas of improvement are subjectively penalized in scoring as we cannot determine the overall quality and scope until full implementation occurs.

In South Africa, offering documents are generally one-time documents that require a majority of investor votes to change. The combination of a deed and any relevant subdeeds is the closest publication to the annual prospectuses found in many other countries. Client application forms are mandated to contain information that is somewhat similar to that found in a simplified prospectus. But this document is not considered equivalent to the simplified documents available in most markets.

Starting in May 2015, Board Notice 92 of 2014 requires the distribution of a Minimum Disclosure Document (MDD), which would be roughly equivalent to a simplified prospectus document in other countries.

In South Africa, the legacy standard point-of-sale document is the application form. The information in this form is regulated to contain certain levels of information. These documents are sometimes provided for individual funds but can also pertain to all products on a platform. There is no restriction on the length of this document. The documents typically contain some information on fund risks but less about specific fund investment strategies. Expense Ratio (ER) information is included, as is performance history for the last five years of the fund. The application typically does not contain information on trading costs, the name and tenure of the portfolio manager, nor a numerical example of expenses.

In South Africa, only open-end funds are considered retail investment products. Other products are considered insurance products and are subject to separate regulation.

South Africa's legacy disclosure is lacking compared with many other countries in this survey. Funds have not been required to update an offering document annually or after amendments or changes. Additionally, unlike most of the other countries in this survey, there are no required shareholder reports. Per the RDR that will be implemented in 2015, the MDD will be updated quarterly and must be provided at the point of sale. These changes greatly increase South Africa's disclosure scores in our report.

Funds generally provide a section on management's discussion of fund performance. Funds in South Africa rarely include an example of the impact of fees. Trading costs are rarely disclosed in any manner. There is no uniform presentation of fees, making it very difficult for investors to tell what they are paying in total or for each of the various fund expenses. When implemented in May 2015, the MDD "sets out the essential characteristics of a portfolio or portfolio class which will enable an investor to understand the nature and the risks of the portfolio and to make informed investment decisions." Regarding fee disclosure, the Board Notice notes "fees and charges associated with the most expensive class available directly from the manager for investment by members of the public, other than financial institutions; (expense ratio, management fees, initial fees, performance fees, advisory fees, and any other applicable fees)."

Mutual funds are required to disclose full portfolio holdings to the regulator quarterly, with partial information available to the public. Current fund investors can obtain this information upon request. More than 91% of funds report their holdings to Morningstar at least quarterly.

Portfolio-manager information is not required information in South Africa. However, almost all funds do voluntarily produce a fact sheet that contains the manager's name without including the manager's tenure. This is one disclosure feature where South African funds provide voluntary disclosure that is better than typical practices around the world. No information on the compensation of individual managers or their investments alongside investors is available.

South Africa does not have a central website with an electronic repository of fund documents.

### **Fees and Expenses**

In South Africa, stated loads are generally negotiable with the sales agent. It is common for the investor to pay for advice outside of commissions and retrocessions. The fee is usually negotiated and paid directly to the advisor through the redemption of shares. Between 25% and 50% of both funds available for sale and funds domiciled in South Africa report a front load. When purchasing funds without advice, funds without loads or trail commissions are accessible but make up a small part of investors' assets.

Funds in South Africa are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance, and the practice is very common. The performance fees do not have a uniform structure and vary wildly from one firm to the next. This is partly a problem because it skews ERs in South Africa from year to year depending on how performance was the prior year. Standards for how performance fees are structured and the elimination of egregious practices are concerns for both the government and ASISA.

Individual investors in South Africa have the choice to invest in locally domiciled funds as well as foreign funds that choose to register with FSB. South African citizens residing in South Africa do face limits on the cumulative amounts they can invest in foreign securities therefore local funds do

dominate. The ERs of funds domiciled in South Africa are generally lower than those offered from foreign fund sponsors.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
0.83%	1.85%	1.63%	0.57%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.64%	1.43%	1.63%	0.57%

### Sales and Media

In South Africa, mutual funds are the preferred investment vehicle for new pooled investments.

Investors in South Africa have all surveyed distribution channels widely available, including direct from funds, independent advisors, brokerage houses, fund supermarkets, and banks and insurance companies. Fund supermarkets, brokerage houses, and banks and insurance companies dominate fund sales. It is estimated that between 20% and 50% of funds in South Africa are sold through a distributor with an open-architecture system.

Mutual funds in South Africa typically require investment minimums, but these are frequently waived with participation in an automatic investment plan. The median investment minimum of funds available for sale in South Africa is above USD 2,000. The median investment minimum of South Africa-domiciled funds is between USD 500 and 1,000.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. In South Africa investors must receive application forms prior to making an investment. The MDD will be required at the point of sale beginning in May 2015. Advisors and other fund salespeople in South Africa can make any recommendation they feel is appropriate without considering equivalent products available that are more suitable for the specific investor.

Directed brokerage arrangements are a common practice in South Africa.

Regulations in South Africa limit funds from paying third-party advisors more than ZAR 1,000 annually in incentives, entertainment, gifts, or educational training. This severely limits inducements and sales contests. There is not a similar restriction on salesforces tied to the fund sponsor. These restrictions protect investors from the worst abuses of sales contests, and we consider this a significant restriction protecting investors from biased advice.

Investors in South Africa can generally find mutual fund articles in their newspapers on a weekly basis. These articles sometimes mention mutual fund fees when they are high. Articles on fund investing frequently promote long-term investing.

# Spain

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## Regulation and Taxation

In Spain, the regulatory body responsible for laws governing the investment industry, including fund advertising and sales practices, is the Comisión Nacional del Mercado de Valores (CNMV). Per the CNMV's website, "The purpose of the CNMV is to ensure the transparency of the Spanish market and the correct formation of prices in them, and to protect investors. The CNMV promotes the disclosure of any information required to achieve these ends, by any means at its disposal; for this purpose, it uses the latest in computer equipment and constantly monitors the improvements provided by technological progress." Its website contains information for an investor to understand the regulations governing the fund industry. Additionally, as a member of the European Union, Spain has laws that conform to EU directives including UCITS IV and MiFID.

CNMV is also the organization responsible for regulating fund advertising and sales practices.

The local legislation has been regularly updated to adopt the regulatory changes imposed by the European parliament and the European Securities and Markets Authority (ESMA). These updates are published on the CNMV or the Banco del Espana webpages. There are no available third party assessments of the effectiveness of the CNMV. According to its annual report, at the end of 2013 the CMNV had 421 employees for a country of 47 million people. Most enforcement actions are public in Spain, and enforcement actions are posted on the CNMV website. The regulation and supervision of fund advertisements are perceived as partially effective and only identify the worst violations.

All countries in this survey, including Spain, require funds to be audited by an independent party at least once a year. In Spain, fund assets are required to be kept by a custodian, but the custodian may be an affiliated company.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. As a member of the EU, Spain has laws and regulations that comply with MiFID. This directive requires that soft-dollar arrangements be used for the benefit of investors and be disclosed, and that managers seek best execution of trades. Spain allows soft-dollar arrangements that adhere to these restrictions and requires that these be disclosed to investors.

In Spain, funds are not required to have boards of directors.

In Spain, there is no limitation on funds investing in securities issued in foreign countries.

Spain allows funds registered in compliance with the UCITS IV directive to be marketed to Spanish investors. Foreign-domiciled funds are common in Spain, but investors still prefer locally domiciled funds.

In Spain, the government has a pension system to encourage individuals to invest in funds as a way to provide their own wealth in retirement. The Spanish pension system is made up of three pillars: state-guaranteed pensions for everyone working in Spain; supplementary pensions that are arranged between the employee and the employer; and individual pension plans. Individual pensions in Spain are frequently linked to insurance contracts and must follow investment restrictions that do not apply to funds in general. Additionally, pension funds in Spain are regulated by the Direccion General Seguros y planes de Pensiones, a division of the Spanish Ministry of Finance and Taxes, rather than the CNMV. Individual pensions in Spain offer tax deferral, but the fund choices are limited and do not have the same disclosure requirements as fully taxable funds.

Investors in Spain can defer taxes on interest and dividends earned within funds if they choose accumulation share classes. Capital gains taxes only apply to funds in Spain upon the liquidation of fund shares when there is not a rollover into another qualified fund. All locally domiciled funds are typically considered qualified, but foreign-domiciled funds must have at least 500 investors to qualify. Investment funds also receive the benefit of income accrual without ongoing taxes and tax deferral into approved funds. Nevertheless, there is a small tax on the realized profits earned within funds. The aftertax annualized returns on a hypothetical investment earning 7.59% pretax are 7.54%, an annual reduction of 0.05%.

In Spain, most goods and services are subject to a Value-Added Tax (VAT). Most finance and insurance services in Spain are exempt, but discretionary personal portfolio advisory services are subject to VAT.

### Disclosure

As a member of the EU, Spain has funds that are compliant with UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document (KIID). The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, and the details provided are somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Expense Ratio (ER) with ongoing charges, a prospective percentage that, unlike the previous ER, excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. In practice, this is not uniformly enforced, and investors must often search for

details and calculate the amount they would spend on performance fees on their own. The KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. This information is also unavailable in other fund literature in Spain. The KIID does not contain any disclosure of trading costs.

The KIID contains past performance for standardized periods (typically the past 10 years) to allow investors to see the performance of the fund over time. In practice, investors accessing this through websites may be redirected to a page with this disclosure. It does not include the manager's name or tenure, making it difficult for investors to determine the connection between the manager and fund returns. The document also does not include any information on holdings, which means that investors are not able to connect the fund's stated strategy with the actual portfolio choices of the fund.

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end and exchange-traded funds. Other products such as exchange-traded notes, exchange-traded commodities, closed-end funds, and structured products have separate regulations.

In Spain, fund companies must publish shareholder reports quarterly. Financial statements within the shareholder report typically include comparisons to three prior years. Management's discussion of performance is required information, and our local analysts observe that fund companies usually provide a general market commentary that does not tie in to investment decisions or fund performance. A few fund shops do distinguish themselves with thorough and candid discussions. A typical annual report reviewed included a proxy for transaction costs, total expenses, fund risks and objectives, an abbreviated financial statement, full portfolio holdings, and a discussion of fund performance.

Shareholder reports list sales and redemption charges and itemize management fees as well as depository charges. But these documents lack information on embedded trailers, as well as marketing and distribution fees. The criteria used by the fund companies to apply a performance fee can vary from one company to another. So, the end investor is not aware of how much he has paid in terms of performance fee when this fee is applied, although the performance fee charged for the whole fund is published on quarterly reports. An investor who invested partway through the year doesn't know how much he has paid in performance fees. The turnover ratio is provided as a proxy for the cost of trading securities. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund. Fund expense information is available both in fund literature and on the CNMV website.

Mutual funds are required to disclose full portfolio holdings to the public quarterly. Nearly two thirds of funds provide Morningstar with this information monthly, with the remaining third meeting the regulator's schedule.

Portfolio-manager information is not required information in Spain, and this information is infrequently provided in any fund-produced documents. No information on the compensation of individual managers or their investments alongside investors is available.

The CNMV has a website with an electronic repository of fund documents and ER information. The CNMV has actively improved its website since our first study, and the information is now considered timely and well maintained.

### Fees and Expenses

In Spain, stated loads are not negotiable with the sales agent, and the maximum management fee and the maximum depositary fee that a fund can charge are fixed by law. It is rare for investors to pay for advice outside loads or trail commissions embedded in expense ratios, and it is estimated that there are fewer than 150 independent advisors using a fee-based model licensed in Spain. Between 25% and 50% of funds domiciled in Spain (mainly guaranteed funds) and between 50% and 75% of funds available for sale in Spain report charging front loads. Unlike many countries in this survey, we observe that it is common for Spanish investors to purchase funds without advice. Most funds available to investors through supermarkets, brokers, or advisors carry retrocessions. Those funds distributed directly by the fund house or the parent bank do not, and these segments of the market constitute a large chunk of retail assets. Most foreign funds, which are usually sold through intermediaries, have trail commissions of which the investor is unaware.

Funds in Spain are permitted to charge management fees with an asymmetrical performance component that lacks an equal reduction in fees for underperformance. Terms of performance fees can be confusing particularly around the high-water mark is reset. Few investors could estimate the performance fee they pay unless they are invested for full calendar periods. Performance fees have not been common in the past, but our analysts have observed them more frequently in recent years, especially among funds employing alternative strategies.

Individual investors in Spain individual investors have the choice to invest in locally domiciled funds as well as UCITS funds filing necessary paperwork.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.10%	1.82%	1.56%	0.12%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.85%	2.01%	1.34%	0.60%

## Sales and Media

In Spain, an investor has multiple distribution options to choose from including fund supermarkets, independent advisors, and banks and insurance companies, brokerage firms and directly from the fund. The fund supermarkets and bank and insurance company channels dominate fund sales. It is estimated that less than 20% of funds in Spain are sold through a distributor with an open-architecture system, although guided architecture including foreign-domiciled funds is becoming more common.

Mutual funds domiciled in Spain usually require investment minimums, but they are typically very low. The median investment minimum of funds available for sale in Spain is less than USD 500. The median investment minimum of Spain-domiciled funds is less than USD 500.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is prohibited in Spain. Advisors and other fund salespeople in Spain can make any recommendation they feel is appropriate without considering equivalent products available that are more suitable for the specific investor.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not prohibited by any Spanish regulations, but they are not known to be a common practice. MiFID requires that all brokerage arrangements seek best execution and are for the benefit of fund shareholders.

Conflicts of interest are generally quite obvious when they occur. Specifically, many fund representatives are employees of the fund sponsor. Independent advisors must specifically disclose conflicts of interest.

In Spain, the practice of compensating advisors (either monetarily or through awards) for selling particular funds is not banned. However, across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice. The practice of using sales contests to motivate the general sales of funds is allowed with little known oversight or guidance.

Investors in Spain can find mutual fund articles in their newspapers on a daily basis. These articles rarely mention mutual fund fees when they are high. Articles on fund investing sometimes promote long-term investing.

# Sweden

## Regulation and Taxation

In Sweden, the regulatory body responsible for laws governing the investment industry, including fund advertising and sales practices, is Finansinspektionen (FI). Per its website, “The Swedish Financial Supervisory Authority, Finansinspektionen, is a public authority. Our role is to promote stability and efficiency in the financial system as well as to ensure an effective consumer protection. We authorize, supervise and monitor all companies operating in Swedish financial markets. Finansinspektionen is accountable to the Ministry of Finance.” Additionally, as a member of the European Union, Sweden has laws that conform to EU directives including UCITS IV and MiFID. In early 2014, FI launched a new unit for consumer protection, called “Konsumentskydd.”

Fondbolagens förening, the Swedish Investment Fund Association’s website, contains information for investors to understand the regulations that apply to funds management and sales.

Lag (2004:46) om Investeringsfonder is the name of the comprehensive law regulating the fund industry. Finansinspektionen is the only regulatory agency in Sweden. This has been updated in Law 2011:882 to bring local laws into compliance with the pan-European UCITS IV and AIMFD.

Unlike most countries in this study, Sweden has an independent evaluator of government institutions, Riksrevisionen, that regularly check aspects of the work of FI. A recent audit focused on inadequate protection of consumer information and weaknesses in the supervision of occupational pensions. The Swedish Consumer Agency issues binding guidelines relating to the marketing and advertising of the fund industry. The Investment Fund Association’s guidelines fully incorporate those of the consumer agency. The FI has approximately 400 employees for a country of just under 10 million people. All FI enforcement actions are published on its site.

All countries in this survey, including Sweden, require funds to be audited by an independent party at least once a year. In Sweden, fund assets are required to be kept by a custodian, but the custodian may be an affiliated company. UCITS has strict rules when the depository is a related party. This results in few fund firms with related custody arrangements. The two largest banks, SEB and Swedbank, are also fund sponsors. They have large custodian operations and almost all independent fund companies are their clients. Our local team observes that this is likely not primarily because of restrictions but rather because of economies of scale and price competition.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. As a member of the EU, Sweden has laws and regulations that comply with MiFID. This directive requires

that soft-dollar arrangements be used for the benefit of investors and be disclosed, and that managers seek best execution of trades. Sweden allows soft-dollar arrangements that adhere to these restrictions and requires that these be disclosed to investors. It is unclear whether these rules are enforced.

In Sweden, funds are not required to have boards of directors.

In Sweden, there is no limitation on funds investing in securities issued in foreign countries.

Sweden allows funds registered in compliance with the UCITS IV directive to be marketed to Swedish investors. Foreign-domiciled funds easily obtain regulatory approval and are broadly distributed.

Sweden has a pension system to encourage individuals to invest in funds as a way to provide their own wealth in retirement. Since 1995, individuals in Sweden are required to contribute 2.5% of their earnings into a publicly managed defined-contribution plan known as Premiepension (PPM), which is managed by a government agency. In January 2010, PPM became part of a new agency, Pensionsmyndigheten. Most employers also provide defined-contribution pension savings that can be invested in mutual funds.

Additionally, Swedes have been able to make additional tax-deferred investments into individual pension savings (IPS) accounts or individual unit-linked pension insurance. These tax deductions are being phased out during 2015 after legislation that passed in the fourth quarter of 2014. Individuals self-direct pension accounts and can choose to self-direct PPM accounts, although a government default investment is available for those who do not choose to self-direct their PPM savings. The fund choices available within individual insurance wrappers, IPS, and PPM savings are nearly identical to taxable investments, but shareholders have restricted rights compared with taxable investors. Most individual insurance wrappers have a limited choice of funds.

Since December 1990, unit-linked insurance savings in mutual funds have been available with a fixed annual tax (based on average government borrowing cost). These insurance savings were complemented with the new Individual Saving Account (ISK) in January 2012, having the same low taxation (only 0.27% of assets during 2015) as insurance savings, but without extra fees and also easy to move to another ISK-institution (bank or similar entity).

Investors in Sweden can defer taxes on interest and dividends earned within funds if they choose accumulation share classes. Capital gains taxes only apply to funds in Sweden upon the liquidation of fund shares. Upon liquidation, capital gains are subject to a capital income tax rate that is different from the earned income tax rate in Sweden. Investment funds receive the preference of income accrual without ongoing taxes, but there is a 0.12% tax annually (30% tax on a 0.4% deemed income return) upon the beginning balances in investment funds, called the deemed income tax.

With normal 30% capital gains tax, on a hypothetical investment earning 6.29% pretax, the after-tax annualized returns are 4.49%, an annual reduction of 1.80%. With ISK, the after-tax returns are probably higher, but this depends on future risk-free interest rates and on the length of the savings (the annual ISK tax gives less accumulation advantage.)

Most goods and services are subject to a Value-Added Tax (VAT), but it is common for funds to set up legal structures that avoid these taxes on fund management.

### Disclosure

As a member of the EU, Sweden has funds that are compliant with UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document (KIID), faktablad in Swedish. The KIID is required to pertain to only one fund at a time and is two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Expense Ratio (ER) with ongoing charges, a prospective percentage that, unlike the previous ER, excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. In practice, this is not uniformly enforced, and investors must often search for details and calculate the amount they would spend on performance fees on their own. In conclusion, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. The KIID does not contain any disclosure of trading costs.

Sweden, unlike most countries in the survey, does have strong recommendations that fund companies include an illustration of fees upon a standard investment. This is incorporated in the annual report rather than the KIID. While that is a great improvement over countries without this information, cost presentations are most helpful in aiding investors in the point-of-sale document.

The KIID contains past performance for standardized periods (typically the past 10 years) to allow investors to see the performance of the fund over time. It does not include the manager's name or tenure, making it difficult for investors to determine the connection between the manager and fund returns. The document also does not include any information on holdings, which means that investors are not able to connect the fund's stated strategy with the actual portfolio choices of the fund.

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end and exchange-traded funds. Other

products such as exchange-traded notes, exchange-traded commodities, closed-end funds, and structured products have separate regulations. In Sweden, offering documents must be updated annually even if there is no material change in operations. Funds must publish annual and semi-annual reports; certain key information has as many as 10 prior years of information for comparison purposes. The management's discussion within this information is generally insightful and connects investment decisions to results.

In addition to ongoing charges within the KIID, fund investors in Sweden receive account statements showing the exact proportion of their assets that went to fees in monetary terms on an annual basis.

Financial statements for funds domiciled in Sweden consolidate almost all ongoing fund expenses into a single management fee. All costs associated with fund assets are attributed to this classification including depository charges, legal fees, advisor remuneration and distribution. Only performance fees are itemized. This simplifies the calculation of ongoing charges, but prevents investors from determining if the fund is being a reasonable steward of investor assets for other operating costs. Advice fees have so far also been included in fees, but without transparency investors cannot determine if they are getting what they pay for. Under MiFID II, Sweden will have new legislation covering third-party advice commissions.

Commissions paid by the fund are available within the shareholder reports so that investors can estimate trading costs. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund. These appear in the ongoing charges but not within many financial statements.

UCITS funds are required to disclose full portfolio holdings to the public quarterly. Special funds, frequently considered hedge funds, are only required to provide holdings to the regulator. Approximately 50% of funds publish their holdings monthly to Morningstar.

Swedish fund management companies are required to publish the names of key employees, including managers for each fund. In practice, funds publish this information in the shareholder reports. No information on the compensation of individual managers or their investments alongside investors is available. Although the compensation of managers is not directly available, the government in Sweden publishes the tax information of all citizens on a government website, including wealth, taxable income, and taxes paid. The lack of ownership disclosure carries over to the board and the management company, which also do not provide this information.

FI has a website with an electronic repository of fund documents, but it currently contains only funds' quarterly portfolio holdings disclosures.

## Fees and Expenses

In Sweden, stated loads are negotiable with the sales agent. It is also rare for investors to pay financial-advice fees other than through commissions or retrocessions. Between 50% and 75% of funds available for sale in Sweden report front loads and less than 25% of locally domiciled funds report front loads. The number of investors paying front loads in practice can be much lower than the reported front loads imply because the load can be waived fully or partially by the distribution company. Funds without loads and retrocessions are widely available and constitute a large part of investor assets.

Funds in Sweden are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. Terms of performance fees are clearly stated, so an investor reviewing a fund's performance can estimate costs for the current year.

Swedish individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with a European passport. Our local research team notes that because of the high transaction costs in brokerage accounts for foreign securities, most investors only choose between fund share classes denominated or traded in Swedish krona at an intermediary. This is a common feature of markets that offer funds in multiple currency denominations. Because the choice of currency is a discretionary piece of the investment process, the following estimates include all share classes that investors can purchase. The expense ratios (based on the ongoing charge in Sweden) of funds domiciled in Sweden are generally lower than those offered by foreign fund sponsors.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.24%	1.83%	1.50%	0.13%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
0.70%	1.56%	1.60%	0.30%

It is important to note that all PPM accounts get a rebate of between 65% and 90% on all fund fees above 0.15% per annum. Also, most employee compulsory pension savings are able to negotiate rebates on annual charges that are not reflected in unique share classes. About half of all mutual fund investments in Sweden are through PPM or other compulsory pension savings, so therefore these values will overstate the net costs that investors in Sweden actually experience in these types of accounts.

## Sales and Media

Swedish investors have four fund sales channels widely available: banks and insurance companies, traditional brokerage, direct sales, and fund supermarkets. The bank and insurance company channel dominates fund sales. It is estimated that between 50% and 80% of funds in Sweden are sold through a distributor with an open-architecture system. Recently, more distributors have been offering funds from outside advisors, although most distributors still focus on promoting in-house funds.

Mutual funds domiciled in Sweden rarely require large investment minimums. The median investment minimum of funds available for sale in Sweden is less than USD 500, but the median investment minimum of Sweden-domiciled funds is between USD 500 and 1,000.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is prohibited in Sweden. Additionally, in many instances consumers in the EU have cooling-off periods during which certain purchases can be canceled. Advisors and other fund salespeople in Sweden must follow law 2002/03:133 s 15-17) about financial advice. According to this law, advisors have to follow “common practice in the financial industry.” The suitability requirements of MiFID appear to be stronger than this legislation. Advisors have to provide investors written documentation of the items discussed in their meetings, and conflicts of interest are disclosed here, but this disclosure may not be clear to investors.

Swedish regulations do not specifically prohibit directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds). MiFID requires best execution, however, so these transactions are indirectly banned on a pan-European basis.

In Sweden, there is no regulation banning the practice of compensating advisors (either monetarily or through awards) for selling particular funds. However, across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice. The possibility of sales contests to motivate the general sales of funds is allowed with little known oversight or guidance.

Investors in Sweden can regularly find mutual fund articles in their newspapers.

# Switzerland

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## Regulation and Taxation

The supervisory authority on investment funds in Switzerland is the Swiss Financial Market Supervisory Authority (FINMA). Established in 2009, FINMA combines three previous agencies: the Federal Office of Private Insurance, the Swiss Federal Banking Commission, and the Anti-Money Laundering Control Authority. The laws that set the regulatory guidelines of funds are called the Collective Investment Schemes Act (CISA), the Collective Investment Schemes Ordinance (CISO), and the FINMA Collective Investment Schemes Ordinance (CISO-FINMA). In addition to this regulation, the code of conduct of the Swiss Funds Association (SFA) provides additional self-regulation for its members. Self-regulation is an established and government-authorized practice in Switzerland.

FINMA is also the agency responsible for the regulation of fund advertising and fund sales practices.

The government has been quite active over the past decade. The Swiss Federal Act on Collective Investment Schemes (Collective Investment Schemes Act, CISA) of 23 June 2006 brought local legislation in line with UCITS. In 2013, a number of laws were revised to become compatible for distribution into the European Union. The revised versions of the CISA, the CISO and CISO-FINMA entered into force in 2013. Most notably, the simplified prospectus was replaced by the Key Investor Information Document (KIID), mirroring changes that occurred in 2012 in the EU.

As of the 2013 annual report, FINMA had approximately 500 total staff to handle regulations and enforcement of all of its duties. This is for a country of around 8 million people. Most enforcement actions are public in Switzerland, and many actions can be queried in multiple languages on the FINMA website.

All countries in this survey, including Switzerland, require funds to be audited by an independent party at least once a year. In Switzerland, fund assets are required to be kept by a custodian. The custodian may be an affiliated company.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. Swiss regulations and self-regulations do not ban soft-dollar arrangements, but they do require disclosure. Additionally, the Swiss Funds and Asset Management Association (SFAMA) code of conduct states the following in regards to soft-dollar arrangements:

“Fund management companies and SICAVs must ensure that commission-sharing agreements as well as soft commissions and the services remunerated in this fashion accrue directly or indirectly to the fund (e.g. financial analysis, market and price information systems). They must therefore:

- ▶ define a clear policy on the use of soft commissions on stock exchange transactions conducted for the fund's account, and set this policy down in writing;
- ▶ draw up appropriate written regulations with the CISA asset managers entrusted with the management of the fund's assets and to monitor compliance with these regulations."

In Switzerland, funds structured as companies with variable capital are required to have a board of directors, but there is no requirement of independence. But this does not apply to Fonds Commun de placement, FCP, most Swiss-domiciled funds structured in this way. The funds are based on a collective investment contract between the investor and the fund management company and custodian bank.

In Switzerland, there is no limitation on funds investing in securities issued in foreign countries.

Switzerland allows foreign funds to register for sale in Switzerland. Foreign-domiciled funds are common in Switzerland, and investors are neutral of domicile when making an investment choice. Foreign domiciled funds are not automatically registered and must register separately in Switzerland in addition to their domiciled country.

The Swiss pension system is based on three pillars (state pension, occupational pension, and private pension). Within the third pillar, the so-called Pillar 3a, is a personal pension plan designed as a long-term tax-efficient optional supplement to the mandatory first and second pillars. Personal pension plans are available through Swiss insurance companies and authorized banking foundations. The maximum tax-deductible amount for Pillar 3a in 2015 is CHF 6,768 for employees with a pension fund and 20% of net income and up to CHF 33,840 for employees without employee-benefits insurance. Contributions can be deducted from taxable income (up to the statutory maximum amount). No wealth, income, or withholding tax is due throughout the entire term of the savings plan. On payout, the capital is taxed at a reduced rate separately from the rest of a person's income. The regulation of the funds available in retirement plans is identical to taxable investments in Switzerland, but the choices are limited as these are private pension plans.

Swiss citizens pay a variety of tax rates, with the major portion based upon the canton in which they live; for our analysis of taxation, we looked at typical rates estimated by major accounting firms. The Canton of Zurich has marginal rates that are in line with the global accounting firm's estimate. Because Zurich is home to more than one eighth of the population, we have applied this as a proxy for tax rates. Swiss investors are responsible for taxes on interest and dividends earned within funds annually, at their income tax rate. There are no capital gains taxes for individual investors in Switzerland, nor are there any other taxes that apply to mutual fund investments. Our hypothetical fund investment shows that Swiss taxation reduces annualized returns by 0.35% annually to 5.94% after taxes from 6.29%.

In Switzerland, most goods and services are subject to a Value-Added Tax (VAT). Collective investment schemes regulated under CISA are exempt.

### Disclosure

As part of the recent CISA revision, KIID has replaced the simplified prospectus. The KIID is required to pertain to only one fund at a time and is typically two pages long. It is written in clear language that a moderately experienced investor can understand. The information on the investment strategy is clear enough for an investor to understand the basic strategy but generally does not contain information to distinguish investment styles, such as value or growth equity approaches. Mirroring the EU, the risks are outlined with a numerical indicator as well as text explaining the portfolio risks. The document includes the expected Expense Ratio (ER) and standardized performance information. There is no monetary illustration on the impact of fees nor information on trading costs. The KIID also does not generally include any portfolio holdings information. Most disappointing is a lack of information on portfolio managers; this information is not required or typically provided, so tying performance to the individuals making decisions is very difficult.

While the KIID is the primary point-of-sale document that investors see, there is additional disclosure available to interested parties. All retail investment products in Switzerland follow the same disclosure regulations. Full prospectuses are required in addition to the simplified document, but the full document is only required to be updated if terms or strategy are amended. The simplified document is where the time-sensitive material resides.

Funds must file shareholder reports semiannually; these contain financial statements with a prior-year comparison. There is no required management discussion of results, but this is sometimes within the annual report. The information to calculate the ER is within the financial statements and presented in total, not on a per-share basis. Within the financial statements, the management fee, performance fee, and third-party depository and administration fees are itemized, but marketing and distribution fees and retrocessions are within the management fee. The statements also list the purchase and redemption fees clearly.

ERs for funds in Switzerland are calculated in a uniform manner and meet International Organization of Securities Commissions criteria for standardized expenses. The prospective ER includes acquired fund expenses for fund-of-funds structures. In addition to the expense information, funds are required to publish full holdings information semiannually. Approximately 60% of funds publish their full holdings to Morningstar monthly, but the remainder publishes less than quarterly.

The lack of portfolio-manager information continues within all disclosure documents. There is no requirement to provide the name or tenure of the manager nor is compensation information required or listed—although we find that names and tenure are sometimes available on firm websites and monthly factsheets. In addition to the lack of manager names and tenure, neither the managers, the board, nor the management company provide information on their investments alongside shareholders.

In Switzerland, a joint venture between the SFAMA and SIX Swiss Exchange hosts a searchable website containing fund literature and performance information of funds authorized for sale in Switzerland, but it's not complete. The website is in German, French, and English, but fund literature is only in the languages provided by the fund.

### Fees and Expenses

In Switzerland, stated loads are negotiable with the sales agent.

Investors in Switzerland sometimes pay for advice outside of commissions and retrocessions; these cases make up a moderate percentage of investor accounts, but it's expected to grow with the introduction of more advice-based fee models. It remains difficult for investors to purchase funds without any advice fees. Funds are generally only available with a retrocession or through a fee-based advisor. More than 75% of funds available for sale in Switzerland report charging front loads and likewise more than 75% of locally domiciled funds report charging front loads.

Funds in Switzerland are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. Terms of performance fees are clearly stated, so an investor reviewing a fund's performance can estimate costs for the current year.

Individual investors in Switzerland have the choice to invest in locally domiciled funds and foreign funds that register to distribute in Switzerland. The ERs of funds domiciled in Switzerland are typically lower than those offered by foreign fund sponsors.

Fixed-Income	Equity	Allocation	Money Market
1.06%	1.73%	1.50%	0.15%
Fixed-Income/Domicile	Equity/Domicile	Allocation/Domicile	Money Market/Domicile
0.80%	1.32%	1.30%	0.20%

### Sales and Media

Swiss investors have few sales channels widely available—only the bank and insurance companies and independent advisors. Banks are clearly the dominating channel. It is estimated that around 50% of funds in Switzerland are sold through a distributor with an open-architecture system. This includes the large retail banks, which historically have been captive sales channels of banks' asset management arms. This is changing given increased transparency about retrocessions.

Mutual funds in Switzerland generally require investment minimums, but minimums are sometimes waived, for example, for automatic investment plans. The median investment minimum of funds available for sale in Switzerland is less than USD 500, and the median investment minimum of Switzerland-domiciled funds is also less than USD 500.

“Off-the-page” advertising allows investors to send money to a fund company without receiving a prospectus or a simplified prospectus first. This practice is prohibited in Switzerland, and investors must receive a KIID. Advisors are required to act as fiduciaries and place client interests ahead of their own. Advisors are also required to disclose all conflicts of interest.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are prohibited in Switzerland. Article 22 of CISA bans agreements that compel funds to direct transactions to a specific counterparty.

Sales practices in Switzerland are undergoing a significant change. Historically, the salesforce is led by individual agreement with each employee. If the goals are achieved, a specific type of bonus (mostly monetary) is rewarded to the employee. These agreements generally eliminate sales contests providing an incentive for increased sales of specific funds but act very similarly to contests that motivate selling funds in general. The ruling of the higher federal court (Bundesgericht) in November 2012, which decreed that retrocessions incurred within wealth management mandates have to be refunded to investors, however, is expected to change this historically common praxis. Fee-based advice models are arguably on the rise in Switzerland.

Investors in Switzerland can find mutual fund articles in their newspapers on a weekly basis. These articles rarely mention mutual fund fees when they are high, and they rarely advocate long-term investing. These articles generally focus on specific investment opportunities.

# Taiwan

## Regulation and Taxation

In Taiwan, the Securities and Futures Bureau (SFB) of the Financial Supervisory Commission (FSC) is the regulatory body responsible for supervision of securities and futures sectors. It also regulates fund advertising and sales practices. The mission of the FSC is to “maintain financial stability, accelerate internationalization and deregulation, facilitate healthy investment environment and increase market confidence, educate and protect investors.” The laws and regulations governing mutual funds are:

- ▶ Securities and Exchange Act
- ▶ Securities Investment Trust and Consulting Act
- ▶ Regulations Governing Securities Investment Trust Funds
- ▶ Regulations Governing Offshore Funds
- ▶ Regulations Governing Information to be Published in Prospectuses by Securities Investment Trust Enterprises Offering Securities Investment Trust Funds

The mutual fund industry is also self-regulated by the Securities Investment Trust & Consulting Association (SITCA). The SITCA proposes regulatory framework to the SFB. The SITCA, the Taiwan Depository and Clearing Corporation, and the Chinese National Futures Association together maintain an electronic database called “Fund Clear.” Fund Clear is a central database containing public records of authorized offshore securities investment trusts, futures trusts, and offshore mutual funds. An individual with an Internet connection can go to Fund Clear to view a fund’s abridged prospectus, full prospectus, and current and historical annual reports. For onshore funds, SITCA’s website discloses a fund’s transactions report, turnover ratio, as well as top five holdings on a monthly basis and full holdings on a quarterly basis. In addition, the Market Observation Post System (MOPS) by Taiwan Stock Exchange serves as a platform where fund companies file full and simplified versions of annual and quarterly reports.

The Securities Investment Trust and Consulting Act is the comprehensive regulation governing all fund industry operations in Taiwan. All investment operations are overseen by the FSC of which the SFB is a subsidiary organization. Taiwanese regulations are up-to-date, and changes typically resolve all emerging regulatory risks effectively. The regulator is perceived as actively investigating improprieties, and most enforcement actions are public in Taiwan. The regulation and supervision of fund advertisements are perceived as effective and succeed at preventing misleading advertising.

All countries in this survey, including Taiwan, require funds to be audited by an independent party at least once a year. In Taiwan, fund assets are required to be kept by a custodian. The law requires

that the custodian be independent of the fund manager, and the two organizations cannot be subsidiaries of the same holding company unless approved by the FSC.

Soft-dollar arrangements, in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment, are uncommon and discouraged in Taiwan. The Self-Regulatory Code of SITCA stipulates that kickbacks of commission charges and other interests from security brokers cannot be accepted. Most funds are members of SITCA.

In Taiwan, funds are not required to have boards of directors.

Since 2012 all limitations on investing in mainland China have been removed and Taiwanese funds can invest in securities issued in any country.

Taiwan allows foreign funds to register for sale in the country. The registration process for foreign funds is straightforward. Foreign-domiciled funds are common in Taiwan, and investors actually prefer foreign-domiciled funds.

To encourage individuals to invest toward retirement, the Taiwanese government introduced the Labor Pension Fund, the only tax-deferred investment available for retirement savings. The Labor Pension Fund is described as follows:

“The medium-and-long-term goal of the Fund is to have the rate of return of the Fund on a 5-year moving average be higher than the legally guaranteed rate of return plus the annual increase of the consumer price index during the same period.

“In order to achieve the above target return, the Fund will operate on its own and through investment mandates. In addition, a medium-and-long-term investment strategy with both active and passive management is also adopted to ensure the security of the Fund and to seek the maximum investment return within the risk tolerance level of the Fund.”

Investors in Taiwan pay a capital income rate on interest income within funds. There is a separate dividend tax rate paid annually, but domestic dividend taxes are reduced by an imputation system crediting corporate taxes paid for domestic corporations. There are no capital gains taxes in Taiwan and no additional tax benefits for fund investors. There are no other taxes applied on fund investments in Taiwan. The aftertax annualized returns on a hypothetical investment with a pretax return of 7.59% are 7.16%.

Fund management services in Taiwan are subject to a business tax based on the level of sales rather than income. It is unclear if this increases the cost of fund management as directly as a consumption tax.

## Disclosure

Simplified prospectuses in Taiwan are required to pertain to one fund at a time and typically are fewer than five pages in length. The material is written in plain language that is clear to an average investor. The investment strategy description is sufficient for a professional investor to determine the exact strategy of the fund. The risks sections, while clear, pertain to all investments and are not specific to the primary risks of the fund. There is not an Expense Ratio (ER), but the monetary amount of fees is included with an itemized breakdown. Actual commissions or a proxy of trading costs are not included. Simplified prospectuses contain the name of the portfolio manager and information on the tenure. A standardized performance table is a required piece of this document, and information is provided for the fund's top 10 holdings for funds that have at least 10 holdings. Some off-shore funds will be heavily concentrated in fewer than 10 holdings, in which case information may be provided only for the top five holdings.

Open-end funds and exchange-traded funds are subject to identical disclosure requirements in Taiwan. These are the only investment products considered retail. Funds' offering documents are required to be updated annually, regardless if there is a material change in operations. The financial statements within shareholder reports contain a prior-year comparison; these are contained within the annual report. Local regulation requires that reports containing performance be updated quarterly. Management's discussion of performance within reports is typically generic and does not tie the portfolio returns to specific market events and trades.

The expenses within the annual report are presented in total as a part of the financial statements and a ratio. The components of the ER require the itemization of distribution costs, which include retrocessions. The financial statements contain the actual trading costs incurred. Within the financial statement, fees are presented in any format the fund likes, but there is uniform presentation of ER on the central website. These expenses sometimes include acquired fund expenses for fund of funds.

Taiwanese mutual funds are required to disclose full portfolio holdings to the public quarterly.

Funds domiciled in Taiwan are required to provide the names of the portfolio manager, and funds must now provide the manager's tenure, which is an improvement from past surveys. No information on the compensation of individual managers or their investments alongside investors is available. This lack of ownership disclosure carries to the management company, which also does not provide this information.

In Taiwan, there is a centralized website with current and complete fund literature accessible by individual investors.

## Fees and Expenses

In Taiwan, stated loads are negotiable with the sales agent. It is also rare for investors to pay financial-advice fees other than through commissions or retrocessions. More than 75% of funds available for sale in Taiwan report charging a front load, and more than 75% of locally domiciled funds report front loads. Investors in Taiwan find it quite difficult to purchase funds with no commissions or trailer fees. These funds are a minimal part of investor assets.

Funds domiciled in Taiwan with a government classification as a futures fund and foreign-domiciled funds in Taiwan are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. Terms of performance fees are sometimes difficult, and investors may not be able to estimate the ER based on current performance.

Taiwanese individual investors in Taiwan have the choice to invest in locally domiciled funds as well as foreign funds that register to distribute in Taiwan. The ERs of funds domiciled in Taiwan are typically lower than those offered by foreign fund sponsors.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.46%	1.83%	1.67%	0.21%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
1.36%	1.76%	1.33%	0.20%

## Sales and Media

In Taiwan, open-end mutual funds are the most popular fundlike product for investors to own, but our analysts find that ETFs are quickly growing in popularity. Taiwanese investors have most sales channels widely available including: fund supermarkets, traditional brokerage, direct from the fund, and banks and insurance companies. There are many fund supermarkets with little advice and either fully open-architecture or broad guided architecture. The funds supermarkets along with bank and insurance company sales channels dominate fund sales in Taiwan. It is estimated that more than 80% of funds in Taiwan are sold through a distributor with an open-architecture system.

Mutual funds in Taiwan generally have strict investment minimums, but these are frequently waived for investors in an automatic investment program. The median investment minimum of funds available for sale in Taiwan is less than USD 500, but the median investment minimum of Taiwanese domiciled funds is more than USD 2,000.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is prohibited in Taiwan, but it is unclear how frequently this is enforced. Advisors and other fund salespeople in Taiwan can make whatever investment recommendation they want without restriction.

Advisors in Taiwan are required to act as appropriate fiduciaries, placing the interest of investors ahead of themselves. Advisors are also required to disclose any potential conflicts of interest to their clients.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are discouraged and uncommon in Taiwan. The Self-Regulatory Code of SITCA stipulates that members have written agreements stating that kickbacks of commission charges and other interests from security brokers cannot be accepted.

In Taiwan, the practice of using sales contests to motivate general sales of funds and the practice of compensating advisors (either monetarily or through awards) for selling particular funds is no longer allowed.

Investors in Taiwan can find mutual fund articles in their newspapers on a daily basis. These articles rarely mention mutual fund fees when they are high but sometimes promote long-term investing.

# Thailand

## Regulation and Taxation

In Thailand, the Securities and Exchanges Commission (SEC) is the regulatory body responsible for supervision of securities and futures sectors. It also regulates fund advertising and sales practices. The mission of the SEC is to “develop and supervise the Thai capital market to ensure efficiency, fairness, transparency, and integrity.”

In addition to the SEC, licensed asset management companies in Thailand are represented by the Association of Investment Management Companies (AIMC), a self-regulatory and advocacy body. The main objectives of the AIMC are as follows:

- ▶ To serve as the center of companies licensed to operate investment management businesses.
- ▶ To foster the development of and provide protection for investment management businesses.
- ▶ To promote and improve professional standards of investment management businesses in the interests of the members and the general public.
- ▶ To promote a saving culture among the public to enhance the financial stability of the country as a whole.
- ▶ To cooperate with government agencies and/or organizations and/or agencies relevant to or in charge of controlling and/or monitoring investment management business on regulatory initiatives for not only investment management businesses but also all other types of securities businesses.
- ▶ To cooperate with the Stock Exchange of Thailand (SET), futures markets, or trading centers of securities or any other assets, listed companies, authorized companies, any agencies or institutions for the development of not only investment management businesses but also all other types of securities businesses.
- ▶ To facilitate cooperation among the member companies in solving problems associated with the investment management business, and compromise of disputes related to the investment management business among its members or between its members and third parties.
- ▶ To set out rules, regulations, or code of ethics for the member companies and to ensure their compliance with the rules, regulations, or code of ethics for smooth operations of investment management companies.
- ▶ To provide support for research, study, and dissemination of academic information and news and publicize information about the securities business with particular focus on investment management for the benefits of the members and the general public.
- ▶ To encourage unity, cooperation, and development among the member companies.
- ▶ To provide social services and contribution as well as other necessary and appropriate activities that will ensure the achievement of AIMC objectives.

The securities industry is governed by The SEC Act B.E. 2535, enacted in 1992. This comprehensive legislation is the source of all specific regulations. The SEC is the sole regulator of investments, so there are no conflicts between regulators. Thai regulations are somewhat up-to-date, but they can be delayed and only partially address known problems. Most enforcement actions are public in Thailand. The regulation and supervision of fund advertisements are perceived as somewhat effective and only identify the worst violations. Our local analysts do observe that advertising standards are being actively updated.

All countries in this survey, including Thailand, require funds to be audited by an independent party at least once a year. In Thailand, fund asset custody is the responsibility of the mutual fund supervisor. The law requires that the mutual fund supervisor be independent of the fund manager, and the two organizations cannot be subsidiaries of the same holding company.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. This is an accepted practice in Thailand, but funds with these arrangements typically disclose them. There is a restriction requiring that soft-dollar arrangements benefit shareholders.

In Thailand, fund companies have supervisory boards, but boards do not exist at the fund level. This role fulfills many of the responsibilities of boards of directors in other countries. The mutual fund supervisor must be independent of the management company, and, as mentioned above, the mutual fund supervisor is also the custodian.

In Thailand, funds must receive government permission to invest in securities issued in a foreign country. Additionally, funds investing outside of Thailand are required to publish additional risk disclosures related to foreign investment.

In Thailand, foreign-domiciled funds must separately register for sale to Thai investors. Generally, foreign funds register a feeder fund in Thailand. The feeder fund will have as its only investment a foreign-domiciled master fund. Foreign-domiciled funds are not directly available in Thailand. Only a handful of foreign funds currently have registered for sale in Thailand, contributing to the preference of local-domiciled funds by Thai investors. Following popularity and success of Undertakings in Collective Investments in Transferable Securities (UCITS) in Europe, the Association of Southeast Asian Nations (ASEAN) has adopted rules for a regional collective investment scheme regime. Launched in July 2012 with an accredited investor regime, the framework was expanded to all investors in August 2014. Retail investors now have open access to funds issued in Malaysia, Thailand, and Singapore.

In Thailand, there are three tax-preferred vehicles that allow investors to save for retirement with savings that is exempt from income taxes: Provident Funds, Retirement Mutual Funds (RMFs), and Long-Term Equity Funds (LTFs). Provident Funds are defined-contribution plans, with employers

being able to designate managers of the plan and individuals providing their own investment policy statements. Provident Funds and RMFs must be held until retirement age, but LTFs can be withdrawn after five years. Individuals are allowed to contribute and deduct from income the lesser of 15% of wages or THB 500,000 into these savings vehicles annually. Additionally, employer contributions and distributions to the Provident Fund are exempt from taxes. Funds held within one of these structures are subject to all the regulations of the SEC, but not all funds qualify as RMFs, LTFs, or Provident Funds.

Citizen taxpayers in Thailand are responsible for taxes on interest and dividends earned within funds on an annual basis; taxes are withheld at a capital income rate. Fund investments in Thailand are exempt from capital gains taxation. Additionally, investments in certain LTFs qualify for a tax deduction. Fund investments are exempt from any other taxation in Thailand. In our hypothetical investment scenario, we assumed that the taxes saved by using a LTF would immediately be reinvested in the LTF. As a result, the aftertax annualized returns of a five-year investment are actually 1.81% higher than the pretax returns. This is more fund-friendly than any other tax regime in the survey.

Most goods and services in Thailand are subject to a Value-Added Tax (VAT); fund investment services are subject to this tax.

### Disclosure

The Thai simplified offering document is the summary prospectus. There have been great improvements to this document since our last survey in 2013. These are required to only apply to one fund at a time and have been reduced from approximately 20 pages to a range of two to four pages. The document is written in plain language that is free of jargon, and the strategy description is sufficient to help an investor understand the exact investment philosophy of management. The risks section is also adequate. Risks are explained clearly and typically cover both general investing and fund-specific risks.

The summary prospectus publishes the last year's ER. It does not contain a monetary illustration of fees or any information on trading costs. The summary prospectus does contain returns for standardized periods. Information on the portfolio managers' names or tenures is provided. Portfolio sector breakdowns are included, and funds are required to include the top five holdings, asset allocation, sectors, credit quality, and duration.

All retail investments in Thailand are subject to the same disclosure requirements. Funds are required to semiannually update (money market funds are required to quarterly update) their offering documents in addition to shareholder reports. Financial statements within shareholder reports include several years of comparison and include standard deviation and risk-adjusted performance. Funds are required to publish both semiannual and annual reports. Management's discussion of performance within reports is typically generic and does not tie the portfolio returns to specific market events and trades.

Within the financial statements, the monetary costs that compose the ER are disclosed in total and on a per-share basis. These generally contain enough detail so that investors can determine which portion of fees pays for which expenses. Explicit trading costs are disclosed in annual reports, so investors know how much the fund pays in brokerage commissions. Thai rules require that fees and expenses are presented in a uniform manner such that investors can easily compare one product with another.

Presently, funds are required to publish full holdings in conjunction with the semiannual shareholder reports, and this standard has been improved in 2015 to be quarterly disclosures.

Funds typically disclose the name of the portfolio manager in annual reports, and information on the start date or tenure of the manager will be required starting in 2015. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure carries over to the board equivalent and the management company, which also do not provide this information.

In Thailand, there is a centralized website with current and complete fund literature accessible by individual investors.

### Fees and Expenses

In Thailand, stated loads and breakpoints are not negotiable with the sales agent. Paying for advice outside of fees and expenses is a known practice but rare in Thailand. Between 25% and 50% of funds available for sale or domiciled in Thailand report charging a front load. Open-end funds available to retail investors in Thailand that do not include either a front load or trail commission are available but are difficult for investors to locate or invest in and are a minimal portion of investors' portfolios.

The SEC permits funds to charge asymmetrical performance fees, but to date it is not a known practice for funds to charge these fees. Additional SEC-provided performance-fee examples are fulcrum fees.

Individual investors in Thailand have the choice to invest in locally domiciled funds as well as foreign feeder funds domiciled in Thailand.

Fixed-Income/Domicile	Equity/Domicile	Allocation/Domicile	Money Market/Domicile
0.44%	1.83%	1.35%	0.49%

### Sales and Media

In Thailand, open-end mutual funds are the most popular fundlike product for investors to own. Investors in Thailand have most sales channels widely available, including fund supermarkets,

traditional brokerage, direct from the fund, and banks and insurance companies. Banks dominate fund sales in Thailand. It is estimated that less than 20% of funds in Thailand are sold through a distributor with an open-architecture system.

Mutual funds in Thailand generally have strict investment minimums. The median investment minimum for funds domiciled in Thailand is less than USD 500. The median investment minimum for funds available for sale in Thailand is less than USD 500.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is prohibited in Thailand, but it is unclear how frequently this is enforced. Advisors are expected to consider all products when making a recommendation, but there is no formal regulation.

Advisors are held to a fiduciary standard when advising clients and must disclose any potential conflicts of interest.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not permitted in Thailand.

In Thailand, the practice of using sales contests to motivate general sales of funds and the practice of compensating advisors (either monetarily or through awards) for selling particular funds is allowed with strict regulations.

Investors in Thailand can find mutual fund articles in financial newspapers on a daily basis. These articles almost never mention mutual fund fees when they are high, and they rarely promote long-term investing. Thailand scores below peers in the 2015 World Press Freedom Index.

# United Kingdom

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## Regulation and Taxation

There is one main regulator in the United Kingdom, the Financial Conduct Authority (FCA). The FCA was established in April 2013, replacing the Financial Services Authority after the passing of the Financial Services Act of 2012. Per the FCA website:

Our purpose is to make sure markets work well so that consumers get a fair deal. We:

- ▶ maintain and ensure the integrity of the market
- ▶ regulate financial services firms so that they give consumers a fair deal
- ▶ ensure the financial services market is competitive

In addition to the FCA, some regulations are handled by the Prudential Regulation Authority and the Bank of England. Most fund operations are regulated and enforced by the FCA. Additionally, as a member of the European Union, the U.K. has laws that conform to EU directives including UCITS IV and MiFID.

In addition to a restructuring of the financial regulators, the U.K. has changed a number of laws relating to the fund industry in recent years. It has adopted UCITS IV and the Alternative Investment Funds Managers Directive (AIFMD), but more notably it implemented the Retail Distribution Review (RDR). This intends to improve the investor experience in three areas:

- ▶ Improve the clarity with which firms describe their services to consumers;
- ▶ Address the potential for advisor remuneration to distort consumer outcomes; and
- ▶ Increase the professional standards of advisors.

In force for approximately two years, the rules associated with RDR are explicitly designed to eliminate any linkage between fund selection by advisors and the payment of commissions by fund houses. As of Jan. 1, 2013, advisors, unless they elect only to offer “basic advice,” are banned from receiving commission payments from fund houses. Independent advisors may not elect this option, which is only available to “restricted” advisors. The main effects are that funds now offer a class free of all commissions (most equity funds, for example, now have an ongoing charge of 1.00%, compared with 1.50%-plus previously) and that most investors are expected to pay advisors directly for their services. In addition to ensuring that investor outcomes are not skewed by incentives provided by funds, the proposals have increased transparency in fees such that investors are more aware of what they pay for investment advice versus fund management.

There has been no independent analysis of the effectiveness of the FCA. As of its most recent annual report, the FCA had a total of 2,511 staff, of which around 600 were in supervision and approximately 425 were in enforcement; this is for a nation of approximately 64 million people. Some enforcement actions are public in the U.K.

All countries in this survey, including the U.K., require funds to be audited by an independent party at least once a year. Fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, and the two organizations cannot be subsidiaries of the same holding company.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. As a member of the EU, the U.K. complies with MiFID, which requires that soft commission arrangements be used for the benefit of investors and be disclosed, and that managers seek best execution of trades. The Conduct of Business Sourcebook (COBS) specifically outlines permissible soft-dollar transactions. The U.K. allows soft commission arrangements that adhere to these restrictions and requires that they be disclosed to investors.

Among funds domiciled in the U.K., there are two primary legal types of open-end collective investments: open-end investment companies (OEICs) and authorized unit trusts (AUTs). OEICs are required to have boards of directors. However, there is no requirement that the board be independent, and boards can and often do consist of a single member: the authorized corporate director (ACD), which is typically the fund company itself. AUTs are governed by trust law and must have an independent entity as a trustee. Closed-end funds, known as Investment Trusts in the U.K., must have an independent board of directors.

In the U.K., there is no limitation on funds investing in securities issued in foreign countries.

The U.K. allows funds registered in compliance with the UCITS IV directive to be marketed to British investors. Foreign-domiciled funds are somewhat available in the U.K. However, many independent advisors are not familiar with foreign funds and do not offer these to investors, leading investors to prefer funds managed by U.K.-based fund sponsors.

In the U.K., there are tax incentives for individuals who invest for retirement in a pension scheme and Individual Savings Accounts (ISAs). A pension scheme is simply a type of savings account set up to provide income in retirement, with limitations on when and how much money can be withdrawn. Both employer-sponsored and personal pension plans are common in the U.K. Contributions by individuals into personal pension accounts are made net of tax, but the pension provider will claim back the tax paid from the government at the basic rate, and higher-rate taxpayers receive further relief via self-assessment. Beginning in April 2010, some of these tax exemptions started to phase

out for individuals earning more than GBP 150,000. Pension plans have different regulations from taxable funds, but many fund choices are available in both types of accounts.

Investors in the U.K. can use ISAs to minimize the taxes on long-term savings. There are limits to annual contributions, but assets invested can be removed from ISAs prior to retirement. In comparing the tax treatment of long-term mutual fund investors, we determined that a rational British investor would choose an ISA for a five-year holding period whenever contribution limits permitted. Holdings within ISAs are exempt from taxes on payments to investors deriving from interest income. Dividends paid to investors relating to income from equity investments are subject to a 10% tax annually, reducing reinvested amounts, but as these are withheld by the fund, so shareholders don't face these directly. Both long-term and short-term capital gains earned within the fund, and by the investor upon liquidation of fund shares, are generally exempt from further taxation. For our hypothetical fund investment, we assumed the investor's fund assets are all within the ISA. The resulting tax reduction is only 0.13% annually, on a balanced fund with 6.29% pretax return.

In the U.K., investment services are exempt from the country's Value-Added Tax (VAT).

### Disclosure

As a member of the EU, the U.K. has funds that are compliant with UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document (KIID). The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund. These descriptions are somewhat helpful for an experienced investor in comprehending the fund's strategy, but they can be vague. However, they have greatly improved recently for straightforward strategies. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Expense Ratio (ER) with ongoing charges, a prospective percentage that, unlike the previous ER, excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. In practice, this is not uniformly enforced, and investors must often search for details and calculate the amount they would spend on performance fees on their own. In conclusion, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. This was required for U.K. funds prior to the introduction of the KIID. It does not contain any disclosure of trading costs.

The KIID contains past performance for standardized periods (typically the past 10 calendar years) to allow investors to see the performance of the fund over time. It does not include the manager's name

or tenure, making it difficult for investors to determine the connection between the manager and fund returns. The document also does not include any information on holdings, which means that investors are not able to connect the fund's stated strategy with the actual portfolio choices of the fund.

Across the EU, all investment funds compliant with UCITS are subject to the same minimum disclosure requirements and operating regulations, although local regulators may impose additional requirements for funds sold in their markets. This includes open-end and exchange-traded funds. Other products such as closed-end funds, insurance funds, pension funds, and non-UCITS retail schemes do not fall under the same regulation and therefore have different requirements. In the U.K., fund companies must publish shareholder reports semiannually. The financial statements must be examined by an auditor who is not associated with the asset-management company and must be published within 120 days after the fiscal year ends. The financial statements within the shareholder reports include comparisons to the prior year. Management's discussion of performance is required information, but it is typically general and does not tie portfolio actions to fund performance.

In shareholder reports, monetary costs used to calculate the expense ratio are sometimes provided, but they are not in any uniform format. Generally the funds itemize management fees, and ongoing expenses such as custody, but for legacy funds embedded advice fees are not itemized but in new client sales these are not permitted. Marketing and distribution charges and performance fees are not consistently itemized. Pan-European regulations require the inclusion of acquired fund expenses when more than 10% is invested in another fund. Funds are required to file a "long-form" report to the regulator (the FSA) and to provide a less detailed, "short-form" report to investors by default. The short-form report omits the complete portfolio holdings and many other items. Funds are required to supply the full long-form report to shareholders on request.

Mutual funds in the U.K. are required to disclose full portfolio holdings in their long-form annual and semiannual reports. These are filed with the regulator and made available on request to all interest parties, but by default investors receive the short-form report. More than 85% of funds send portfolios monthly to Morningstar.

Funds domiciled in the U.K. sometimes provide the name of the portfolio manager, but tenure is rarely provided. No information on the compensation of individual managers or their investments alongside investors is available, although UCITS V implementation across Europe will require disclosure of compensation details and structure.

The U.K. does not have a publicly sponsored website with an electronic repository of fund documents.

### **Fees and Expenses**

In the U.K., stated initial sales charges (loads) and breakpoints are negotiable with the sales agent. However, this is only relevant to pre-RDR legacy share classes. Under the rules generated by the RDR, most new investments will flow into classes that are free of sales charges and ongoing trail

commissions. An exception is made for restricted advisors who elect to only offer “basic advice,” although here strict disclosures are mandated.

Historically, investors sometimes have paid for advice separately through fees instead of through loads and embedded trail commissions. However, this number is expected to be going up significantly because of the banning of most commission- and trailer-based compensation for new investments. Legacy assets based upon retrocessions still dominate fund assets, but this is evolving organically as investors shift allocations and change advisors.

Prior to the implementation of RDR, between 50% and 75% of both share classes available for sale and domiciled in the U.K. reported a front load. The implementation of the RDR has resulted in the mass creation of share classes that investors are able to purchase without paying a load or retrocessions, as advice is now largely required to be paid for directly by fund investors to their advisors. Thus, the percentage of share classes that report charging a front load is expected to decrease in the future. However, funds are not required to shift investor assets from share classes with trails to RDR share classes, so assets under management with fully unbundled advice fees remain at present a small percentage of investor assets.

Funds are permitted to charge performance fees that are asymmetric insofar as they increase the cost to the investors in the case of outperformance but do not decrease the cost to the investor in the case of underperformance. The terms of performance fees are frequently too complex for a typical investor to accurately estimate their total expenses including performance fees.

British individual investors in the United Kingdom have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in the U.K.

<b>Fixed-Income</b>	<b>Equity</b>	<b>Allocation</b>	<b>Money Market</b>
1.11%	1.75%	1.50%	0.12%
<b>Fixed-Income/Domicile</b>	<b>Equity/Domicile</b>	<b>Allocation/Domicile</b>	<b>Money Market/Domicile</b>
1.05%	1.65%	1.43%	0.40%

### Sales and Media

Investors in the United Kingdom have independent advisors and fund supermarkets widely available to gain access to funds. The independent advisor channel dominates fund sales in the U.K. Historically, it is estimated that more than 80% of funds in the U.K. are sold through a distributor with an open-architecture system.

Mutual funds in the U.K. generally have investment minimums, but these are frequently waived for investors in an automatic investment plan. The median investment minimum of both share classes available for sale and domiciled in the U.K. is less than USD 500. These figures reflect reported data, but our analysts observe that many major fund companies have higher minimums.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. In the U.K., investors must receive the KIID before purchasing shares in the fund. The ban on “off-the-page” is enforced; for example, online fund supermarkets require investors to certify receipt of the KIID. RDR requires advisors to consider all equivalent products when recommending investments to their clients. Additionally, all conflicts of interest must be disclosed, but commission bans have reduced potential conflicts considerably.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not permitted in the U.K.

In the U.K., the RDR has strictly prohibited independent advisors from soliciting or accepting “any commission, remuneration or benefit of any kind” for recommending funds. A subclass of restricted advisors offering “basic advice” can be compensated via commission, fee, or other benefit but must clearly disclose these arrangements to the client prior to providing services. FCA guidance requires that fund sales incentives be strictly monitored by advisory firms to avoid mis-selling, effectively banning excess compensation for selling funds.

We observe that investors in the U.K. can find mutual fund articles in their newspapers on a weekly basis. These articles now sometimes mention mutual fund fees when they are high, and they only sometimes promote long-term investing.

# United States

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## Regulation and Taxation

In the United States, the Securities Exchange Commission (SEC) is the primary regulator of investment funds. The SEC was created by the Securities Exchange Act of 1934. The mission of the SEC is as follows: “to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.”

Mutual funds in the U.S. are regulated under the Investment Company Act of 1940. The 1940 Act requires fund companies to register with the SEC. All fund regulations are derived from authority within this statute. The SEC has primary authority in regulating mutual funds, but when mutual funds invest through derivatives tied to commodities, those are regulated by the Commodities Futures Trading Commission (CFTC). This overlap in the regulation of 1940 Act funds with commodity exposures has the potential to create confusion and inconsistencies unless actively managed by the regulators. In addition to these regulators, the Financial Industry Regulatory Authority (FINRA) is a self-regulatory authority for securities firms doing business publicly in the U.S. FINRA administrates and interprets the SEC’s legal framework for sales literature and fund advertising. Regulations in the U.S. are somewhat up-to-date, with the 1940 Act last updated in 2012. There is little proactive oversight identifying improprieties, but most enforcement actions are public in the U.S. The regulation and supervision of fund advertisements is effective and prevents misleading advertising.

All countries in this survey, including the United States, require funds to be audited by an independent party at least once a year. The 1940 Act requires that funds use a custodian to ensure safe-keeping of fund assets. The custodian may be contracted to provide additional services such as acting as the fund’s transfer agent and/or dividend disbursing agent, or the function of custodian can be the sole service provided. The custodian is allowed to be an affiliated company in the U.S.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. The SEC’s stance toward soft-dollar arrangements is that such payments are permissible as long as the services provided are lawful and appropriate to portfolio-manager performance. While many professionals are bound by the CFA code of ethics and numerous firms have also adopted these standards, there is still no regulatory requirement that the soft-dollar arrangements specifically benefit fund shareholders, nor are there limitations on nonresearch benefits. Soft-dollar arrangements are to be disclosed in the prospectus.

In the U.S., funds are required to have a board of directors. There is a requirement that at least 40% of the board be independent directors. In practice, independents represent a majority of directors on many boards with independent chairs also common.

In the U.S., funds have no material limitations on what they may invest in; however, they are prohibited from investing in securities from countries that are considered state sponsors of terrorism, as well as Iran and Cuba. In practice, most of these countries do not have liquid securities otherwise eligible for funds.

The U.S. requires funds domiciled in other countries to register under the 1940 Act in order to sell to American investors. Foreign-domiciled funds are not typically available.

In the U.S., there are tax incentives for individuals who invest for retirement through a variety of account types (for example, 401(k), 403(b), 457). Employer sponsored 401(k) plans allow workers to save toward retirement on a pretax basis. Additionally, there are Roth 401(k) plans that accept aftertax contributions, with no tax upon withdrawal. Tax laws allow for a wide variety of securities to be held within 401(k) accounts. Money must be kept in the plan until the employee reaches 59 1/2 years of age or becomes disabled. Withdrawals from a 401(k) are subject to taxation as ordinary income. Individuals also may participate in Individual Retirement Accounts (IRAs). In a traditional IRA, contributions are made after taxes but are tax-deductible. Distributions are taxed as normal income. For Roth IRAs, contributions are made after taxes, and normal distributions are not subject to income tax. Both the traditional IRA and the Roth IRA have income limits and contribution limits. Again, distributions can begin at the age of 59 1/2 years or if the individual becomes disabled. In the U.S., investments held in retirement accounts are generally subject to the same laws and regulations as those held in taxable accounts. Increasingly, Collective Investment Trusts (CITs) are being used as investment options within 401(k) plans. CITs do not have the same disclosure requirements as mutual funds (for example, portfolio disclosure) but in practice a similar level of disclosure is made on a voluntary basis. The tax benefit is carried by the account and not the investment vehicle.

U.S. investors pay taxes on interest income earned within a fund on an annual basis, unless the income is derived from certain municipal securities that are exempt from federal taxation. Interest is subject to the full earned income marginal tax rate. Taxes on dividends are also paid annually. Most dividends are assessed at a qualified dividend tax rate, which is lower than the earned income rate. Fund investors in the U.S., unlike those in most other countries in this survey, are assessed capital gains taxes on realized gains within fund portfolios. In practice, funds distribute these taxable gains—funds that do not distribute a minimum of 95% of gains face tax penalties. Short-term capital gains are taxed at the investor's full marginal income tax rate, and long-term capital gains on assets held for more than one year are taxed at a lower capital gains rate. Taxes on investment funds are not withheld, and investors are responsible for taxes themselves. The return of a hypothetical investment earning 6.29% annually is reduced by 1.66%, resulting in an aftertax return of 4.63%.

There is no national consumption tax in the U.S. Additionally, fund management services are exempt from local consumption taxes, which generally do not tax services.

## Disclosure

Funds in the U.S. are required to publish a simplified prospectus in addition to a full prospectus, shareholder reports, and other filings. It is common practice for funds to distribute simplified prospectuses to new and existing shareholders as a stand-alone document but to consolidate a large number of simplified prospectuses into a single electronic document for government filings and postings on websites. When extracted as a stand-alone document, these are typically four pages in length. The simplified prospectus, as well as all other fund and corporate filings in the U.S., are required to be written in plain language without industry-specific jargon or legalese.

Simplified prospectuses sometimes include sufficient information for professionals to identify the exact investment strategy used by the portfolio managers. Risks are generally explained clearly within the document but frequently are too general. It is important that risks are specific to the investment at hand and not all investments.

Expense ratios are presented on both a prospective and historic basis within the simplified prospectus. There is also an illustration of the effects of fees on a standard return on an investment from between one and 10 years. In addition to comprehensive information on expenses, the U.S. is the only country that requires both the name and tenure of the portfolio manager within the simplified prospectus. This document generally does not contain any information on investment holdings.

All retail investment products including open-end funds, closed-end funds, and exchange-traded funds in the U.S. are subject to the same reporting requirements. Funds are required to update their offering documents annually. Financial statements within fund literature include a comparison to prior-year results. Products are required to file quarterly financial statements as well as full semi-annual and annual reports. Management's discussion of performance within reports is typically generic and does not tie the portfolio returns to specific market events and trades.

Within the financial statements, the monetary costs that compose the ER are disclosed in total and on a per-share basis. SEC regulations require that any expenses that are more than 5% of the ER are itemized within financial statements. Commissions paid are available within the shareholder reports, so that investors can estimate trading costs; prospectuses also include a turnover ratio. For funds of funds, only the prospective expense ratio within the prospectus and simplified prospectus include acquired fund expenses, and the information in the financial reports only include expenses directly paid from fund assets. Fees are presented in a uniform format throughout all fund literature and marketing materials. Expense disclosure includes four prior years.

In the U.S., funds are required to publish full long and short portfolio holdings with the financial statements on a statement of investments on a quarterly basis. In practice, approximately 50% of funds provide Morningstar and investors with full holdings at least monthly with a reasonable delay, upon request.

Funds in the U.S. are required to include the name and tenure of the portfolio manager within fund literature, and there are specific disclosure requirements related to team-managed portfolios, which frequently name multiple managers. The U.S. has an additional disclosure document called the Statement of Additional Information (SAI). It contains supplemental information on the operation of the fund. Details on the relationships between the fund company and outside service providers, the structure of the fund, investment and borrowing policies, securities lending, and other specific operating details are included here. The SAI is also the document where information on management's compensation is found, as well as details of performance-fee arrangement, and information on managers' and board of directors' holdings within the fund. The U.S. is the only country to require disclosure of a manager's investment in his fund. In addition to the SAI, funds must also publish Form N-PX, which discloses how the fund has voted proxies of portfolio securities in the prior year.

Fund company filings in the U.S. can be found via an electronic database called EDGAR (Electronic Data Gathering, Analysis and Retrieval) developed by the SEC. EDGAR requires companies to file all documents and data electronically with the SEC in a timely manner. EDGAR allows individual investors to search its site and gain access to and download regulatory filings free of charge.

### Fees and Expenses

In the U.S., stated loads and breakpoints are not negotiable with the sales agent. However, sales loads have breakpoints based on the amount invested. About half of investors in load funds pay less than the full sales load. It is common for investors to switch from self-directed and commission-based accounts to fee-based advisory as their assets grow. This is less than a majority of investor accounts, but it may represent a majority of assets. Less than 25% of funds in the U.S. report charging a front load. Funds without loads or retrocessions are widely available and constitute a large part of investor assets. It is quite common for investors to purchase no-load funds and load-waived shares without significant retrocessions directly from funds and through Internet platforms without any advice received or advice fees paid; this is one area where the U.S. stands out as unique across all countries in the survey.

The U.S. is one of three countries in this survey to require that any performance fees paid to fund advisors include a symmetrical reduction in fees for underperformance, also known as fulcrum fees. The terms of fulcrum fees can be complex and disclosed poorly, and investors can only somewhat estimate fees based upon current performance.

In the U.S., individual investors do not have the choice to invest in foreign-domiciled funds.

Fixed-Income/Domicile	Equity/Domicile	Allocation/Domicile	Money Market/Domicile
0.59%	0.84%	0.61%	0.14%

## Sales and Media

In the U.S., investors prefer open-end mutual funds, but there is a growing proportion of investors and advisors who prefer exchange-traded funds. Funds in the U.S. are well-established and dominate the investment choices available in investor retirement plans. American investors have all sales channels widely available, including independent advisors, fund supermarkets, traditional brokerage, direct from the fund, and banks and insurance companies. No one sales channel dominates fund sales in the U.S. It is estimated that more than 80% of funds, outside of 401(k) plans, are sold through a distributor with an open-architecture or guided-architecture system. Most 401(k) plans are guided-architecture and offer one or two choices for each market segment in order to reduce investment costs for participants while still offering investors a reasonable number of choices.

Mutual funds in the U.S. generally have investment minimums, but these are frequently waived for investors in an automatic investment plan.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is not allowed in the U.S., but in practice many telephone and online purchases occur prior to an investor receiving a simplified document. Advisors and other fund salespeople are required by FINRA to ensure that recommendations are suitable, but there is no requirement that all comparable products such as ETFs be considered.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are prohibited in the U.S.

In the U.S., the practice of compensating advisory firms for shelf space for particular funds is allowed with moderate regulation or oversight, but disclosure is required. The practice of using sales contests and accelerating volume bonuses to motivate general sales of funds is allowed with little regulation or oversight. While Registered Investment Advisors in the U.S. are held to fiduciary standards that highlight the needs of investors, mutual funds can also be sold by licensed brokers who are held to lower minimum fiduciary standards.

Investors in the U.S. can find mutual fund articles in their newspapers on a daily basis. These articles sometimes mention mutual fund fees when they are high, and they often promote long-term investing.