



SUMMARY

**FEEs CHARGED IN 2015 BY
UCITS DISTRIBUTED IN
FRANCE**

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1. INTRODUCTION

Investing in a fund¹ means having professionals manage a sum of money and make investment decisions on the financial markets on their clients' behalf. In exchange, these professionals charge investors a number of fees to cover the costs associated with managing the fund and to pay for the service provided. These charges therefore reduce the investor's final return.

Charges must reflect fund managers' compliance with their fiduciary duties, that is, they should pay for the service provided without representing an excessive deduction from returns. They must also be clearly communicated and understandable to investors in the context of the relationship of trust established with management professionals, as information must be provided both before the client decides to invest and throughout the investment period. They are the result of a balance between supply and demand, reflecting competition among operators.

At a time when investors are increasingly focused on fee levels, the AMF has decided to regularly perform a cross-cutting analysis of information on the charges included in key investor information documents (KIIDs) for UCITS distributed in France. This document is a summary of the findings of this initial study conducted in 2017 of charges in 2015, and which will be regularly repeated by the AMF to monitor changes in management companies' practices.

1.1. DEFINITION OF THE SCOPE OF THE STUDY: INFORMATION ON CHARGES IN THE UCITS KIID

The AMF's study covered the levels of fees taken by asset management companies that manage UCITS² distributed in France. This study is based on an analysis of the charges disclosed in the KIID distributed prior to any subscription to a fund.

The disclosure of the different charges and fees for UCITS is governed by Commission Regulation No 583/2010 of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council (the "UCITS Directive"). This regulation introduced, in particular, the concept of "**ongoing charges**", which corresponds to an aggregate cost rate with an EU-wide harmonised method of calculation.

This rate is calculated by asset management companies on an annual basis. The disclosure of ongoing charges in the KIID allows potential investors to see the amount of charges taken, in general over time, from investors in a fund in the previous year.

They include³:

- Management fees;
- Depositary fees;
- Turnover fees [where applicable];
- Account keeper fees [where applicable];
- Investment advisor fees [where applicable];
- Auditor fees;
- Fees related to delegates (financial, administrative and accounting) [where applicable];
- Fees related to the registration of the fund in other EU member states [where applicable];
- Audit and/or legal fees [where applicable];
- Certain fees related to the distribution of the UCITS;
- Entry and exit charges when the UCITS subscribes or redeems units or shares of another UCITS or AIF.

Some fees, however, are not included in ongoing charges. For example, the latter do not take into account performance fees (when they exist), potential entry and exit charges⁴, or intermediation fees (e.g. brokerage fees). In the interest of providing clear information, performance fees and entry and exit charges are disclosed separately. However, that is not the case for intermediation fees.

Lastly, the definition of ongoing charges is expected to be amended shortly by European Regulation No 1286/2014, known as "PRIIPs". The new cost rate introduced by this European regulation, common to all EU countries, will

¹ Whether it is established in the form of a common fund (*fonds commun de placement*, or FCP) or an open-ended investment company (*société d'investissement à capital variable*, or SICAV).

² This means funds governed by Directive 2009/65/EC, known as the "UCITS Directive".

³ As specified in AMF Position-Recommendation DOC-2011-05.

⁴ These are paid directly by the investor when buying or selling fund units.

incorporate a more comprehensive view of charges that are not currently included in ongoing charges, such as intermediation fees. However, most of the findings of the AMF’s study should not be affected by the entry into force of this new regulation.

1.2. SET OF FUNDS STUDIED

The AMF conducted this study using data from the Lipper (Thomson Reuters) commercial database and regulatory data collected by the AMF. The study is based on a sample of 8,038 French and foreign UCITS (including 1,008 ETFs) distributed in France **at 31 December 2015**. In detail, one-third of these 8,038 funds are French funds (2,638 UCITS), and two-thirds are foreign funds marketed in France (5,400 UCITS). The French funds in the sample represent about 80% of existing French UCITS as at 31 December 2015⁵.

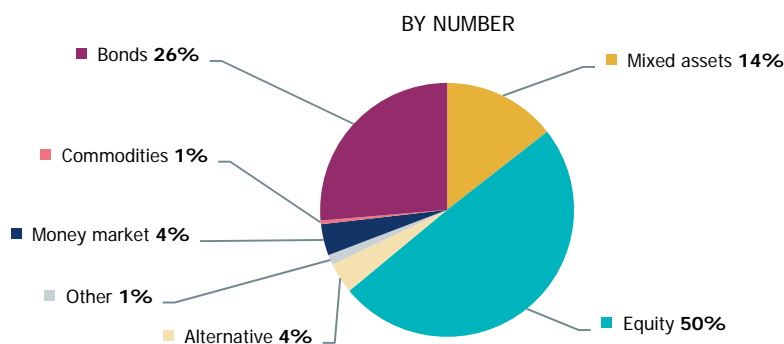
UCITS are funds authorised by a European national authority (in France, the AMF) and that comply with the rules of the UCITS Directive, in particular with respect to risk diversification and asset liquidity. These are investment vehicles generally intended for subscription by “retail” investors and that can be freely marketed within the EU⁶. This study focused on this category of funds as it comprises products designed for the general public.

2. OVERALL VIEW OF THE UCITS MARKET IN FRANCE

2.1. BREAKDOWN OF UCITS BY ASSET CLASS: THE MAJORITY ARE EQUITY FUNDS

First, the study developed a broad overview of the market for UCITS marketed in France, including ETFs at this stage but taking into account only the classes of units accessible to retail investors⁷ (when the information was available). These UCITS were classified by their investment typology as provided by Lipper:

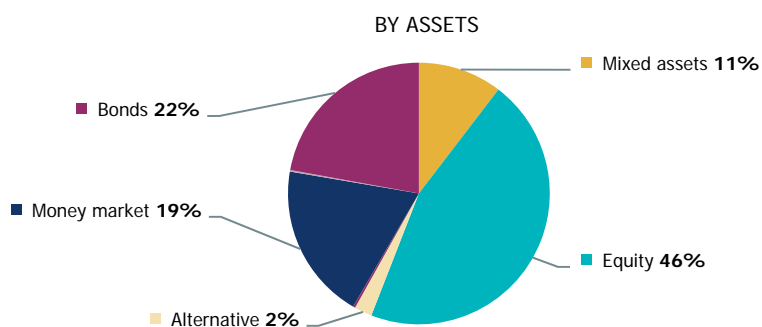
Figure 1. TYPOLOGY OF UCITS DISTRIBUTED IN FRANCE IN 2015



⁵ This study excluded UCITS for which the marketing was clearly not directed at the general public but only at professional (or equivalent) investors.

⁶ Subject to “European passport” procedures.

⁷ Some UCITS provide for units that are accessible only to certain investors, such as institutional clients. These units generally carry lower management fees in exchange for high minimum subscriptions (EUR 10,000 or even EUR 100,000).



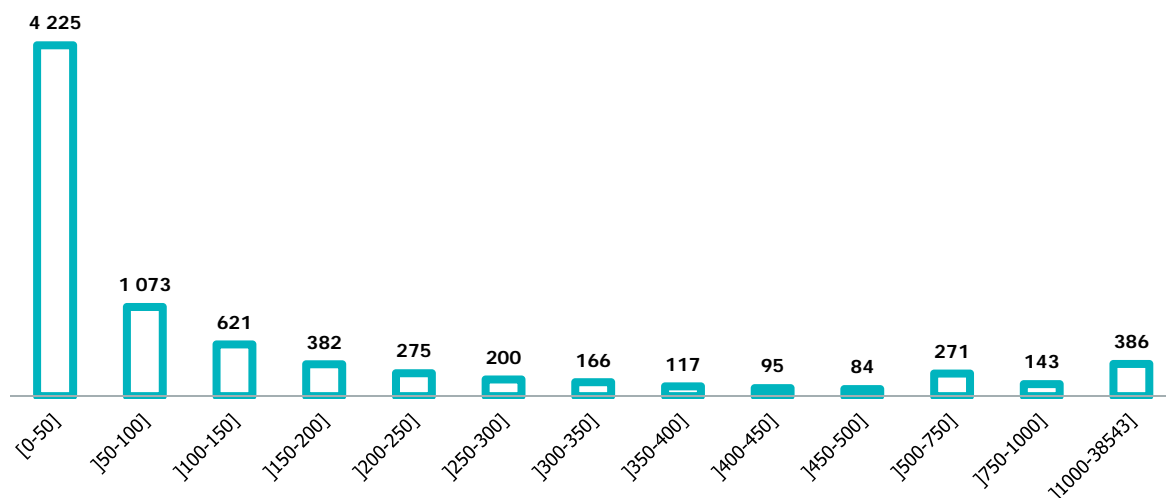
The UCITS market in France in 2015 consisted mostly, in terms of number of vehicles, of “Equity” funds. In terms of assets, “Equity” funds have the largest share, followed by “Bond” funds. With a higher unit size, “Money Market” funds represent a larger share in asset terms, with 19% of assets of UCITS distributed in France in 2015.

A comparative analysis of French and foreign funds does not show any major differences in terms of breakdown by asset class. In detail, in terms of number of funds, 41% of French UCITS implement an “Equity” strategy, 25% a “Mixed Asset” strategy and 21% a “Bond” strategy. Foreign UCITS sold in France are mostly “Equity” funds (53%) and, to a lesser extent, “Bond” funds (29%). “Mixed Asset” diversified management represents only 9% of foreign UCITS sold in France. It therefore seems to be offered to French investors mainly through French funds. So-called flexible management (where the fund’s allocations to different asset classes change based on the fund manager’s assessment of market conditions) is particularly well developed in France.

2.2. BREAKDOWN BY ASSET SIZE: A FAIRLY CONCENTRATED MARKET

UCITS marketed in France had average assets of EUR 247 million at 31 December 2015. However, more than half of them (53%) had less than EUR 50 million in assets and three-fourths less than EUR 150 million. Conversely, it is possible to identify some 386 funds whose assets reached or exceeded EUR 1 billion. Thus, at 31 December 2015, 5% of UCITS accounted for more than half of the assets of UCITS distributed in France.

Figure 2. BREAKDOWN OF THE NUMBER OF UCITS STUDIED BY ASSETS UNDER MANAGEMENT (MEUR)



When differentiating between French and foreign UCITS, it appears the French funds had, on average, fewer assets than foreign UCITS sold in France. French UCITS therefore managed total average assets of EUR 190 million, compared with EUR 275 million for foreign funds.

3. ONGOING CHARGES FOR UCITS DISTRIBUTED IN FRANCE IN 2015

The market regulator is responsible for ensuring that investors can accurately assess the service being offered and the expenses incurred, and for confirming that the UCITS is being distributed appropriately in view of the regulatory requirements.

As such, certain fee levels could be warning signs about the quality of both the information provided to investors and the management implemented.

3.1. DISPERSION OF UCITS CHARGES

As this study focused on active management, ETFs were not included in this section. These ETFs represented 18% of the assets of the 8,038 funds in the study.

An analysis of the medians, quartiles and extremes indicates a very wide range of ongoing charges for UCITS. However, the interquartile range by asset class is much narrower, which shows that, for the majority of funds, charges are close to the average.

Figure 3. BREAKDOWN OF UCITS' MINIMUM, MAXIMUM AND AVERAGE ONGOING CHARGES

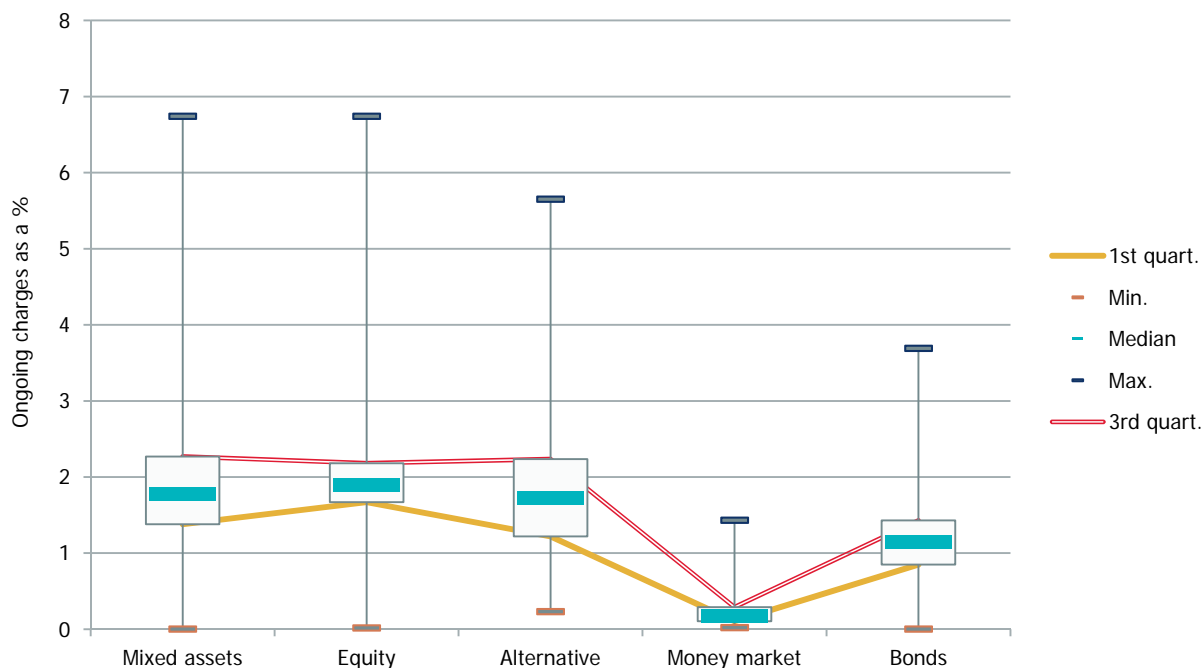


Table 1. BREAKDOWN OF ONGOING CHARGES

	3rd quartile threshold value	Assets/Assets in the category
Mixed Assets	2.27%	6.31%
Equities	2.18%	10.26%
Alternative	2.23%	35.9%
Money Market	0.29%	10.74%
Bonds	1.43%	19.53%
Total	/	12.69%

The funds' charges for each asset class are concentrated around the average (small interquartile range). The dispersion of charges is very high, with the exception of money market funds. However, small funds account for most of the high charges (higher than the third quartile). UCITS whose ongoing charges are higher than the third quartile value thus represent only 12.69% of total assets⁸.

⁸ The only exception is "Alternative" funds, but these represent a very small percentage of UCITS distributed in France.

3.2. ANALYSIS OF CERTAIN EXPLANATORY FACTORS BEHIND ONGOING CHARGES

Some of the variations observed above can be attributed to differences in the services offered to investors. Charges for UCITS in the same category may notably cover:

- The provision of different distribution services (whether or not advice is provided; the nature of the advice, where applicable; the minimum investment amount required; etc.);
- Different investment strategies, the cost of which varies based mainly on the diversity and complexity of the assets invested, on whether work is done to select the underlying funds, etc.

The AMF's study endeavoured to identify a number of these explanatory factors and to estimate their contribution to total ongoing charges on a statistical basis.

Linear regressions were run to evaluate whether the following explanatory variables could account for the level of ongoing charges: classification, the fund's assets under management, the domicile of the fund, the fund's minimum subscription amount and, lastly, the absolute value of the difference between the fund's performance and that of its index (the tracking difference between a fund and its index is one of the factors that differentiates active management from passive management)⁹.

These regressions confirm, first, the significant impact of the size of the funds, the type of client the units are intended for (differentiated by the "minimum initial subscription amount" variable), the asset class and the difference relative to the benchmark index:

- Charges are lower when the minimum subscription is higher than EUR 1,000,000;
- UCITS charges decrease with the size of the funds, reflecting the economies of scale generated when fund assets increase;
- The asset class (or fund classification) is a key determinant of the level of charges: equity, mixed asset and alternative funds have higher charges than other classifications while money market funds have much lower charges.

The regression also shows that, all else being equal, the charges for a fund domiciled in France are 2 basis points lower than those of a foreign fund. A more detailed study by asset class shows much sharper differences as bond funds are 16 basis points less expensive in France than abroad, while equity funds are 14 basis points more expensive in France.

Table 2. ONGOING CHARGES BY STRATEGY, ACCORDING TO THE FUNDS' COUNTRY OF DOMICILE*

	French funds (n=2357)	Foreign funds (n=4596)
Mixed Assets	1.58%	1.62%
Equities	1.80%	1.68%
Money Market	0.10%	0.20%
Bonds	0.69%	1.10%

* as an asset-weighted average

3.3. UCITS TAKING HIGH ONGOING CHARGES

The AMF's study focused in particular on analysing the UCITS marketed in France in 2015 that had the highest levels of charges. To identify these funds, a sample of 6,260 UCITS was selected excluding funds requiring a minimum subscription of more than EUR 100,000, which are not widely distributed to the general public.

Within each investment category ("Mixed Assets", "Equities", "Money Market" and "Bonds"), the study isolated funds which had ongoing charges in 2015 that were higher than the average for their category plus 2 times the

⁹ The regressions were run using funds that reported a benchmark index, i.e. 4,222 funds.

standard deviation. The AMF thus identified **148 UCITS**, representing **0.33% of the assets of the funds studied**, that took substantially high charges for 2015.

These 148 UCITS are distributed by 65 management companies of various nationalities¹⁰. Of these management companies, 16 manage more than 2 UCITS taking charges far higher than other funds in their category. At the far end of the scale, one foreign firm alone had 14 UCITS marketed in France of which 8 were identified as having taken significant charges in 2015.

Table 4. UCITS TAKING HIGH ONGOING CHARGES IN 2015

	Level of ongoing charges	Funds		Assets	
	$\bar{x} + 2\sigma$	Number	As a %	€m	As a %
Mixed Assets	3.47%	39	3.68%	717.00	0.37%
Equities	3.26%	86	2.88%	2,904.11	0.53%
Money Market	0.65%	4	1.67%	141.05	0.08%
Bonds	2.06%	19	1.13%	315.26	0.10%
Total		148	2.48%	4,078.23	0.33%

Two characteristics stand out for the funds selected:

- First, the size of the funds appears to be an important explanatory factor. Thus, 70% of these funds have less than EUR 20 million in assets while, in comparison, funds with EUR 20 million or less in assets represented only one-third of the funds sold in France in 2015. In fact, it is likely that these funds do not benefit as much from the economies of scale generated by the fund manager as their competitors with higher assets, and thus that their management fees are comparatively higher;
- Second, the majority of French funds identified are unique in that they can deduct turnover fees¹¹. These fees are added to total charges taken for the year and thus increase the level of ongoing charges disclosed in these funds' KIIDs.

All else being equal, a UCITS that takes high charges will deliver a poorer performance to its investors than a UCITS with lower charges. It is therefore important to determine whether the additional charge paid by investors yields a higher-quality management service.

The study therefore focused on analysing the performance of the 148 UCITS identified; it was unable to prove there was an average increase in performance to offset these funds' additional charges relative to those of their peers.

3.4. CONCLUSION AND KEY FINDINGS OF THIS STUDY

The French UCITS market in 2015 consisted primarily of funds that had implemented an "Equities" strategy. Moreover, this market appeared to be fairly concentrated as 5% of UCITS accounted for more than half the assets distributed in France. All else being equal, French funds also seemed, on the whole, less expensive than foreign funds sold in France, with the exception of "Equity" funds.

It also became clear that some of the funds marketed had a relatively low level of assets. More than half of UCITS sold in France at 31 December 2015 accounted for less than EUR 50 million in assets. However, this study confirmed that, along with investment strategy, the size of the funds was one of the key components of the level of charges taken from investors. **Companies that manage funds with relatively low levels of assets cannot benefit as much from economies of scale as their competitors with higher assets.** As a result, the weight of their fixed costs to fees charged is proportionally higher.

¹⁰ A single management company can manage UCITS from different countries within the EU.

¹¹ Turnover fees are additional fees charged by the management company and/or the depositary when the fund manager buys or sells portfolio securities. On average, turnover fees represent 4% of French management companies' turnover. However, there are wide disparities among companies.

It is also important to acknowledge the role of turnover fees in the level of French UCITS' charges. Almost all French funds that had much higher charges than their competitors charged these fees. Without judging the final quality of the management provided, **questions could be raised about the role these fees play in improving the performance delivered to investors.**

4. FOCUS ON... PERFORMANCE FEES

Asset management companies can choose to introduce performance fees for their funds. These fees are not included in the calculation of ongoing charges disclosed in the KIID and are therefore disclosed separately. They are in addition to management fees. They are also conditional: they apply only if the fund reaches or exceeds the management objective set by the fund manager. This objective must be clearly presented to investors, who must also be told the amount (expressed as a percentage) they will be charged and the period over which the performance will be compared with this objective, whether the objective is reached, and the amount that was ultimately charged for the previous year. A fund can, for example, plan to charge a fee equivalent to 20% of the fund's excess performance relative to the performance of a given benchmark index for one year of activity.

In principle, performance fees are an incentive to align the fund manager's interests with those of the investor. Ideally, investors would have to pay a performance fee equivalent to the outperformance from which they actually benefited on an individual basis. In practice, it is difficult to monitor the performance of each investor on an individual basis, and performance fees are charged on common net assets, which can lead to inequality in the treatment of investors, in particular when there are subscriptions and redemptions. AMF Position-Recommendation DOC-2012-12 refers to a "residual" inequality in treatment related to the fact that the performance fee is calculated on the same net assets, instead of by monitoring investors individually. There are several ways to calculate performance fees but the AMF notes that any transfer of wealth between existing and new investors must be as limited as possible and under no circumstances should it result in the unjust enrichment of the asset management company.

5%

This is the share of performance fees in French asset management companies' turnover in 2016. It is the lowest rate since 2011.

(Source: Key figures for asset management in 2016 – AMF)

The method used to calculate these fees must, in any case, be easy for investors to understand and provide a minimum level of equality among investors.

Nevertheless, **no common methodology currently exists**, whether at the European or national level, to establish the procedures for charging these fees.

In an initial effort at European harmonisation, IOSCO put forward principles for establishing and charging performance fees in its November 2004 report¹². For example, one recommendation was that these fees be charged no more than once a year. Recognising that these good practices were in the best interest of investors, France incorporated them into its regulations¹³. Thus, all French UCITS authorised by the AMF are required to comply with IOSCO's principles so as to better align the fund manager's interests with those of the investor. In addition, as proof of IOSCO's strong interest in these issues, the organisation reiterated its vision of good practices in 2016¹⁴.

The AMF has nevertheless found that these principles are not uniformly implemented by UCITS authorised in other EU countries. For example, some of the UCITS were observed to charge performance fees on a quarterly basis. In addition, another good practice recommended by IOSCO is to make sure that the

¹² Final Report on Elements of International Regulatory Standards on Fees and Expenses of Investment Funds.

¹³ Incorporated into Article 314-78 of the AMF General Regulation, clarified in AMF Position DOC-2012-12.

¹⁴ Final Report on Good Practice for Fees and Expenses of Collective Investment Schemes.

performance fee hurdle rate is consistent with the fund's management objective. However, this recommendation also does not seem to be uniformly applied and the AMF has observed that some funds marketed in France, and that have implemented a dynamic, active (equities) management strategy, charge fees whenever their performance is positive for the year, or whenever the fund outperforms the money market benchmark (EONIA).

Based on a sample put together by the AMF of 307 UCITS notified to market in France, 49 charged performance fees. Of these, **13 had procedures for charging these fees¹⁵ that did not appear to follow IOSCO's recommendations and thus offered a lower level of investor protection.** The AMF would like these procedures to be discussed within ESMA to ensure a convergence of European practices.

¹⁵ Infra-annual charges, hurdle rate seemingly not consistent with the management objective, etc.