May 2021

GUIDE FOR WRITING LETTERS TO FUNDHOLDERS OF AUTHORISED CIUs

amf-france.org

Authorised collective investment asset management companies (for UCITS, FIVG, fund of alternative funds, FPVG, employee savings fund, FCPR, FCPI, FIP, OPCI and OPPCI products) shall comply with these new standard templates using the instruction guide from 1 September 2021.

AUTORITÉ DES MARCHÉS FINANCIERS

TABLE OF CONTENTS

INTRODUCTION

The changes that may take place during the life of a CIU can entail special information for the holders of fund units or shareholders (hereinafter "investors"), under the conditions provided for by AMF Instructions DOC-2011-19, 2011-20, 2011-21, 2011-22 and 2011-23. The investor letters should therefore enable investors to take their decision to maintain their investment or divest on an informed basis.

The purpose of this guide is to assist market participants with the production of investor letters in order to improve their clarity. It is intended for collective investment asset management companies (for UCITS, FIVG, fund of alternative funds, FPVG, employee savings fund, FCPR, FCPI, FIP, OPCI and OPPCI products).

Standard investor letter templates are shown in appendices to the aforementioned instructions and are also appended to this guide. They should enable market participants to view the expected information according to the type of transaction and fund concerned.

It is specified that the letter endings remain the responsibility of the asset management companies.

This guide is not designed to list all the rules applicable to the production of investor letters. It is the responsibility of the asset management companies to identify these rules and ensure that they are obeyed. Certain provisions explained in the existing AMF position-recommendations, notably those relating to performance reporting,[1] are applicable when writing investor letters.

1. SOME GENERAL PRINCIPLES

Several main principles guide the writing of investor letters:

- The language shall be concise and clearly highlight the main impacts of the transaction. The information shall be hierarchically organised and the most significant items shall be highlighted. This can result in a simplified commentary with slightly less detail concerning more secondary impacts.
- The terminology used shall be appropriate for the target public. Explanations should be simplified and all excessively technical terminology or jargon should be avoided.
- The information contained in the letters shall be presented in a manner that is understandable for all the targeted investors.

2. USE OF VISUAL MATERIALS

2.1. A NEW INDICATOR MATERIALISING THE EXTENT OF THE CHANGE IN THE RISK/REWARD PROFILE

Investor letters (except in cases of winding up) shall now include an indicator designed to illustrate the extent of the change in the fund's risk/reward profile, whatever the direction of this change (i.e. whether the profile is more risky or less risky post-transaction).

The reference factors for qualifying the extent of the change in risk/reward profile are as follows:

- Change in exposure to one or more types of risk (in absolute value); and
- Change in the Synthetic Risk and Reward Indicator (and in particular the difference between this indicator, before and after the change).

[1] As a reminder, the general principles relating to performance reporting rules are described in sections 1.1.2.6 of Position-Recommendation DOC-2011-05 and 3.2 of Position-Recommendation DOC-2011-24.

- **Change in exposure to one or more types of risk (in absolute value)**

This factor already plays a role in determining whether or not a change in the investment strategy of a fund is subject to pre-approval or to ex post notification (cf. table of changes in Instructions DOC-2011-19, DOC-2011-20, DOC-2011-21, DOC-2011-22 and DOC-2011-23).

It also determines whether particular information and a possibility of exit without a penalty are required.

For the purpose of the indicator relating to the extent of the change in risk/reward profile, this will mean examining the level of change in exposure to one or more types of risk. This information will then be combined with the change in the Synthetic Risk and Reward Indicator.

- **Change in the Synthetic Risk and Reward Indicator (SRRI)**

The collective investments covered by this guide report a risk/reward ratio via the SRRI. This indicator appears in the KIID in the form of a score from 1 to 7, each score corresponding to a volatility range (1 representing the least volatile CIUs, and 7 the most volatile CIUs).

Table showing the level of risk and its volatility equivalent for collective investment products establishing a KIID in UCITS format:

	Intervalle de volatilité	
Niveau de risque	**Supérieur ou égal à**	**Inférieur à**
1	0 %	0,5 %
2	0,5 %	2 %
3	2 %	5 %
4	5 %	10 %
5	10 %	15 %
6	15 %	25 %
7	25 %	

For the purpose of the indicator relating to the extent of the change in risk/reward profile, this means calculating the difference between the current SRRI level and the estimated level[2] after a change in its investment strategy.

- **The indicator relating to the extent of change in the risk/reward profile:**

The combined information on change in the level of exposure to one or more types of risk and the SRRI makes it possible to determine whether the extent of the change in the risk/reward profile is "non-significant", "significant" or "very significant", according to the following table:

[2] For changes subject to pre-approval, this means considering the expected new SRRI level (representing the new strategy adopted) by comparison with the level before the change.
For mergers, it means considering the level of the acquiring fund by comparison with that of the acquired fund.

	SRRI unchanged	SRRI which moves by one box	SRRI which moves by more than one box
Change in exposure to one or more types of risk strictly less than 20% (in absolute value)	Non-significant	Significant	Very significant
Change in exposure to one or more types of risk greater than or equal to 20% and strictly less than 30% (in absolute value)	Significant	Significant	Very significant
Change in exposure to one or more types of risk greater than or equal to 30% (in absolute value)	Very significant	Very significant	Very significant

The consequences of introducing exposure to a new type of risk are not the same depending on whether the fund already has a high-risk strategy or, on the contrary, a low-risk strategy. The combination of these two items of information helps to place in perspective the extent of the change and the risk level of the base strategy before the change. The lower the SRRI, the narrower the corresponding volatility ranges. This means that the introduction of an element of risk in the strategy will have a greater impact on a low-risk fund and a smaller impact on a fund that is already very risky.

In order to illustrate clearly the extent of the change in the risk/reward profile (whether the CIU's risk profile be increased or decreased), the following illustration appears in the investor letter, in accordance with the standard template.[3]

In order not to over-stress this indicator (by comparison with the indication specifying whether or not there is an increase in the risk/reward profile), a vignette of neutral colours will be used.

2.2. PRESENCE OF ARROWS AND OTHER VISUAL ITEMS TO CLARIFY THE INFORMATION AND MAKE IT MORE EASILY UNDERSTANDABLE

The standard investor letter template (excluding winding up) consists of a table in which visual items are inserted to facilitate reading for investors (e.g. arrows to show fees that increase or decrease, and "+" and/or "-" to show whether the change in a range of exposure to a risk category contributes to an increase and/or a reduction in the fund's risk/reward profile.

[3] The three illustrations show the three levels of intensity: "non-significant", "significant" and "very significant".

These visual items shall be inserted and distributed in colour, whenever possible, to facilitate reading for investors. If the distribution of a colour document is not possible, then colours should be chosen that provide a good level of contrast so that, when printed in black and white, the arrows and other indicators are clearly legible.

3. USE OF GRAPHS

Graphic illustrations can show the behaviour of a fund's net asset value ("NAV") and its volatility over a given period (generally, the recommended investment horizon).

The insertion of a graph should not be systematic. However, it could be useful and necessary in the case of certain transactions.

Examples:

- Acquisition/merger in the case of significant differences between the change in NAV of the CIUs involved (substantially different strategies and risk/reward profiles)
- CIU mergers, winding up or other changes which might not have succeeded in achieving their investment objective. The targets here are specific cases of substantial underperformance requiring clarification for investors of the strategy implemented until the planned change.

Apart from the aforementioned examples, the need to insert a graph or not should be examined on a case-by-case basis.

The choice of the best period of time to be selected is variable, depending on the transaction in question. Asset management companies should therefore select a period which makes it possible to deliver information of a clear, accurate and non-misleading nature.

Lastly, a literal explanation accompanies this graph in order to facilitate the investor's understanding.

4. ADDITION OF A GLOSSARY

The addition of a glossary is a good practice whenever technical terms are used.

The purpose of the glossary is to simplify certain concepts and facilitate investors' understanding.

The asset management companies determine the terms that should be defined according to the investors' profile and the level of complexity of the strategies presented.

5. SOME SPECIFIC CASES

- **Informing new subscribers of a change subject to pre-approval that is in progress and of which they have not been informed**

Given the regulatory times applicable to certain transactions, new investors can enter a fund before a transformation is effective and without having been informed of it beforehand. In this case, it should be noted that in accordance with Instructions DOC-2011-19, DOC-2011-20, DOC-2011-21 and DOC-2011-23, the asset management company shall provide for an appropriate system in conjunction with its distributors in order to inform investors of the coming changes concerning the collective investment product to which they would like to subscribe, during the period between sending the newsletter to the investors and the effective date of implementation.

Moreover, for asset management companies having a website, a good practice is to publish each investor letter on the page of the fund concerned by the transaction.

This arrangement targets in particular merger transactions for which the period between authorisation of the transaction and its effective date can be relatively long and allows the arrival of new investors.

- **Case of cross-border mergers in which the acquiring fund is a foreign fund**

In this case, a good practice for asset management companies is to include a warning notice to highlight the differences of treatment between French courts and those of the country of the foreign fund, especially in terms of rights and obligations as a fundholder in the foreign acquiring fund.

- **Case of a CIU having several fund classes:**

It is a good practice to personalise the information in the investor letters by restricting it to the information relating to the class of fund units/shares in which the investor who receives the investor letter is invested.

6. METHOD OF TRANSMISSION OF INVESTOR LETTERS

Specific information for investors can take two forms:

- a letter;
- any other durable medium (within the meaning of Article 314-5 of the AMF General Regulation) when it is appropriate for the context in which business is conducted between the asset management company and the investor.

Communication of the KIID

The KIID, normally provided in appendix to the investor letters relating to transformations, can be replaced by a web link to the KIID in question.

However, it should be emphasised that communication of the KIID is necessary in some cases:[4]

- Cross-border mergers of UCITS (involving a French UCITS and a foreign UCITS);
- Mergers of French UCITS involving a UCITS which has received a marketing notification in another Member State of the European Economic Area.

[4] Provisions of Article 411-57 of the AMF General Regulation, applicable to mergers between French UCITS and foreign UCITS or between French UCITS, at least one of which has received a marketing notification in another Member State of the European Economic Area