Study on the Performance and Efficiency of the EU Asset Management Industry

A study for the European Commission (Internal Market and Services DG) and the Financial Services User Group (FSUG)

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Abstract

The present study documents our findings on the performance and efficiency of the EU asset management industry from the point of view of the final investors. We build performance indicators of funds, in nominal and in real terms, for the period 2003-2012. For equity funds, we find that four countries delivered negative real average annual performances and that ten countries increased the initial investments in real terms. We build statistics on maximum fees according to multiple criteria. Fees charged by passive equity funds are lower by around one third to those charged by active funds. Investors could also at least partially benefit from economies of scale by investing in larger funds. We present some key issues of transparency, conflicts of interest, market structures and investors' behaviour that have an impact on investment performance. We document the low level of satisfaction of consumers. Finally, we build a model measuring the overall outcome of asset management from the perspective of the final investors, either through investment funds directly held or through life insurance and pension products. For the longest period (1995-2012), we find annual averages of real performance rates ranging from -2.1% to 4.7% depending on the country.

The Authors

INSEAD OEE Data Services (IODS) is an online data platform that provides access to databases on finance and the economy. IODS offers a large amount of data and associated services to academic researchers and economists in finance, the quality of which is recognised by the scientific community. IODS core objective is to gather, reprocess and structure large volumes of financial data on European markets (including market and corporate data, investment products and macro-financials) in a coherent fashion. IODS ensures that data are collected from a diverse range of sources such as data vendors, existing data platforms and proprietary databases.

The team in charge of the present study included Didier Davydoff and Michael Klages.

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Disclaimer

The information and views set out in this study are those of the authors and do not necessarily reflect the official opinion of the Commission. The Commission does not guarantee the accuracy of the data included in this study. Neither the Commission nor any person acting on the Commission's behalf may be held responsible for the use which may be made of the information contained therein.

Content

Executive Summary

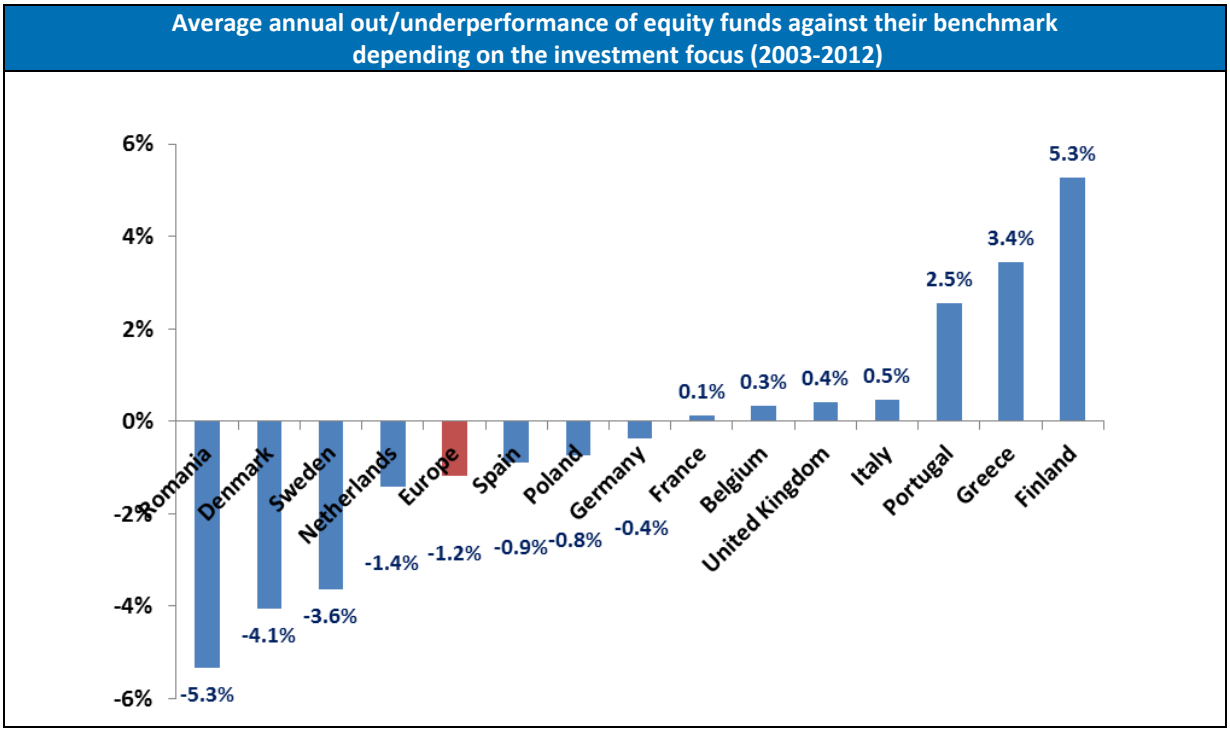
The present study documents our findings on the performance and efficiency of the EU asset management industry from the point of view of the final investor. Professionally managed assets include investment funds and assets managed in the framework of a mandate. We have calculated detailed statistics on performances and charges of investment funds, we have discussed some key issues of transparency, conflicts of interest, market structures and investors' behaviour that have an impact on investment performance. We have assessed the level of satisfaction of consumers and the overall performance of professionally managed assets.

We have built performance indicators of funds, in nominal and in real terms, for the period from 2003-2012, subdivided by fund investment type and focus of investment. Indicators are net of charges and simulations have been run to take into account the additional entry and redemption costs related to switching behaviours of investors. Performances have been compared to relevant benchmarks defined as the relevant index reduced by the level of charges applying to passive funds.

For equity funds, we found that four countries delivered negative real average annual performances with Slovakia and Greece stating particularly poor performances for consumers (-6%). Contrary, there were ten countries for which initial investments increased in real terms with the strongest results achieved in Germany, Denmark and Sweden (7%).

Compared to corresponding benchmarks, seven categories of equity funds outperformed their benchmark while eight underperformed. Equity funds with a focus of investment on Finland strongly outperformed their benchmark (5.3%) while equity funds with a focus of investment on Romania underperformed their benchmark (-5.3%).

Average annual out/underperformance of equity funds against their benchmark depending on the investment focus (2003-2012)



Bond funds and balanced funds with European focus of investment delivered 1%, respectively 0% on average in real terms, while monetary funds with a euro area focus of investment lost 1%. Real average annual performances for alternative investment funds ranged from 2% (for funds of funds) to 8% (for hedge funds).

We have built statistics on maximum fees according to fund investment type by fund domiciliation and likewise differentiated between active and passive fund whenever possible. For EU equity funds, we found that subscription fees (4%) are much higher than redemption fees (1.8%) when they exist and that investors could at least partially benefit from economies of scale by investing in larger funds. Passive equity funds charge management fees that are lower by about one third to those of active funds though one should ideally distinguish tradable ETFs and other index-tracking funds in the case of passive funds. For EU bond funds, average subscription fees are twice as high as their redemption fees but generally lower than for equity funds. EU balanced funds fees almost reach the level of EU equity fund fees.

We have computed the coefficient of correlation between the annual performances of mutual funds with the maximum fees charged to investors. This correlation is null for every type of charge (subscription fees, management fees and redemption fees) thus higher fees cannot be justified by superior performances for consumers. Retail investors benefit little from low fees charged by index-tracking funds, as the latter do not account for more than 2% of total EU equity fund assets under management, and are currently rather sold to institutional investors than to consumers in Europe. Concerning performance fees, recent studies found a reluctance of institutional investors to pay them due to disappointing outcome when such fees were implemented.

We have assessed the ability of asset managers in asset allocation and market timing by comparing flexible funds, where asset allocation is decided by the portfolio manager, with balanced funds, which are usually benchmarked against a fixed combination of specific indices. During the period from 2003-2012, balanced funds were outperformed by flexible funds only once in the course of the crisis of 2008.

There are two important issues that may have an impact on the efficiency of the EU asset management industry: disclosure of charges, as well as conflicts of interest resulting from the conditions of remuneration of portfolio managers and distributors. Critical information relative to UCITS with precise details on charges (maximum entry and exit charges, ongoing charges, last year's performance fee and portfolio transaction costs) should be disclosed in the Key Investor Information Document (KIID). It will be important to ensure that clients will actually be provided with the KIID before the subscription and that there are no inconsistencies between legal and commercial information. Conflicts of interest can arise from inducements paid by portfolio management companies to distributors as the latter may have incentives to sell products that do not suit the interests of final clients. MIFID II establishes limitations to the payment of commissions that the independent advisors can receive from third parties. The impact of the new regulation remains to be

seen, especially in countries where financial advisors play a minor role when compared to universal banks.

Consumer confidence in asset management firms is generally difficult to assess but the Market Performance Indicator (MPI) for the "Market for investment products, private pensions and securities" of the European Commission's "Consumer Scoreboards" provides a good indication of the level of satisfaction and confidence of consumers regarding investment professionals. In eight countries, the Market for investment products, private pensions and securities is ranked in last position among all products and services markets. In all countries except Malta, it is ranked after the 40th position among 52 markets covered.

The amount of professionally managed households' assets has represented about €10 000 bn since 2006, 15% of which are investment funds and 85% pension funds or life insurance contracts. Many small entrepreneurial portfolio management companies were created in the last decade. This trend stimulates competition and innovation while fragmentation of the industry also pushes prices up. The relative weight of funds domiciled in a European country other than the domestic country of investors increased dramatically over the last 20 years. Recent trends in asset management techniques blur the frontier between active and passive management. The competition between portfolio managers has thus been displaced towards building more efficient algorithms rather than traditional indices ("smart beta").

Finally, we have built a model measuring the overall outcome of asset management from the perspective of the financial users, either through investment funds directly held or through life insurance and pension products. The approach developed in our model is a macroeconomic one, based on official data which have been checked according to the pan-European methodology of national financial accounts (SEC 95 standard). The country indices that we have calculated are acceptable proxies of the welfare provided by asset managers for their clients. For the longest period, from 1995-2012, we found annual averages of real performance rates ranging from -2.1% in Slovakia to 4.7% in the Netherlands. Over this 17-year period, three countries recorded negative performances (Slovakia, Italy and Spain). Countries with high pre-funded retirement schemes (the Netherlands, the United Kingdom and Sweden) tend to perform better than countries where individual life insurance contracts dominate since pension fund assets include a significant percentage of equity, which performed better than interest rate products in the long run.

Looking at a shorter period (2007-2012) allows for measuring the impact of the financial crisis and for comparing all countries in the analysis, including those with no data available previously. During this period, three countries with an average annual performance (net of inflation) around 3% (Luxembourg, the Netherlands and Denmark) contrast with all other countries, which show annual returns between -1.4% and + 0.7%.

I. Introduction

IODS has been commissioned by the European Commission (EC), DG MARKT and the Financial Services User Group (FSUG) to study the performance and efficiency of the EU asset management industry from the perspective of the financial user.

The present report is a presentation of our findings on seven research questions raised in the technical specifications issued by the EC and the FSUG as a basis for the call for tenders n°MARKT/2013/125/H. In addition, we propose a model to measure the overall performance of household savings managed by professional asset managers in Europe. The seven research questions are the following:

- Investment performance of investment funds;
- Fees charged by portfolio managers;
- Correlation between charges and performance;
- Performance of asset allocation;
- Disclosure of costs and transparency;
- Consumer confidence;
- Market structures.

The single market in the EU translated into a huge effort of research, negotiation, regulation and surveillance aimed at building a harmonised framework for the provision of financial services. However, even though the ultimate goal of these efforts aims to improve the welfare of the so-called "real economy", in practice there have been more discussions on issues concerning the relationships between various types of institutions within the financial industry than on problems faced by individual savers. Our contribution to the seven questions aims to contribute to filling this gap.

Regarding the model developed for the purpose of the study, the objective is to measure the welfare loss or gain delivered by the EU asset management industry to savers and investors.

Our findings are the result of:

- Processing of descriptive statistics from databases on performances and charges of individual investment funds.
- Running desk research to summarise recent academic and professional literature relevant to the topic of the study.
- Processing of macrofinancial data derived from national financial accounts.
- The experience and knowledge of the members of the Financial Services User Group, representatives of some consumer organisations and professional associations of asset managers. For this purpose a questionnaire was sent out and in-depth discussions took place. We are very grateful for the extremely helpful advice we received on this occasion.

The outline of the study is as follows: In section 2 we describe the data processed for the purpose of the study, in section 3 we present our findings on the seven research questions and the fourth section is devoted to the model and its results. In section 5 we conclude.

II. The data

Asset management includes two different forms; management of funds, on the one hand, and mandates, on the other. The European Fund and Asset Management Association (EFAMA) publishes every year an estimation of the amount of assets managed by its members, broken down according to mandates and funds. However, part of these assets is managed for non-European investors, while part of the assets owned by European investors are managed by non-European asset managers.

To our knowledge, the only systematic review that aims at measuring the respective weight of each type of asset management for the account of European investors is the survey run by Investment Pension Europe (IPE) every year. This survey asks institutional investors about their recourse to internal investment management, outsourcing through mandates and acquisition of closed or open funds.

By nature, there are much more data on open investment funds than on mandates and closed funds. Hence, we focus on investment funds in our contribution to the seven research questions set out in the technical specifications. But we take into account the added value of all forms of asset management in the model assessing the welfare loss/gain of asset management. Indeed, for this part of the study, we estimate the overall outcome of asset management for final investors.

Data on investment funds

UCITS

We use the Lipper FMI database as a source for statistical analysis of investment performances and fees of European investment funds. Lipper FMI is one of the most extensive databases relative to investment funds in Europe. It includes more than 150 000 funds, of which about 100 000 were active at the end of March 2014.

It is important to take into account dead funds in order to avoid any survivorship bias in performance measurement. Hence, we include all funds stating fund data at the end of 2002, even those which disappeared before the end of 2012 due to liquidation or mergers. Furthermore, data have been checked and, whenever possible, errors corrected.[1]

We include all funds with a domicile in the EU, and funds domiciled in some financial centers outside the EU (Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Guernsey, Isle of Man, Jersey,

[1] Data have been filtered for abnormal returns and fees and then checked with other sources individually.

Mauritius and Netherlands Antilles). We present results aggregated for the whole EU and for the largest countries in terms of assets under management (Belgium, France, Germany, Ireland, Italy, Luxembourg, Netherlands and Spain). We also cover Denmark, Slovakia and Romania.

We focus on broad categories of investment funds, i.e. equity funds, bond funds, monetary funds and balanced funds.

Table 1. Number of funds in the Lipper-FMI database active at the end of 2012	
Country of domiciliation	***Number of funds***
Luxembourg	23 649
Ireland	5 543
United Kingdom	4 839
France	3 239
Germany	1 316
Spain	1 033
Belgium	688
Finland	553
Italy	521
Denmark	358
Sweden	287
Poland	280
Portugal	167
Netherlands	160
Greece	148
Romania	49
Slovakia	42
Total	**42 872**

Alternative investment funds

A majority of open investment funds are UCITS. There are also alternative funds types including hedge funds, venture funds and real estate funds. Most of them fall within the scope of the newly implemented AIFMD, which will bring more transparency and comparability to these products.

The present study covers hedge funds. There is a stream of research on hedge fund performance. However, it is difficult to identify what portion of such performance goes to final investors, as they are often sold to other financial intermediaries.

We use the BarclayHedge database to measure average performances of hedge funds, managed futures (CTAs) and funds of hedge funds. BarclayHedge contains data on 6 173 products. We extract a sub-sample of 3 997 products after applying the following filters:

- Funds with a domicile in Europe or in off-shore financial centres.
- Funds that disclose their performance, net of all charges.

Our sample includes 2 615 hedge funds, 422 managed futures, 926 funds of funds and 34 other products.
734 products are registered as “UCITS III” funds and 183 as “UCITS IV” funds.

We found 35 different domiciles. Domiciles with 5 or more products are shown in Table 2.

Table 2. Number of funds in the BarclayHedge database processed for performance analysis (main domiciles)	
Country of domiciliation	***Number of funds***
Cayman Islands	1 521
Luxembourg	1 104
Ireland	343
British Virgin Islands	271
Guernsey	137
Bermuda	128
France	96
Switzerland	92
United Kingdom	67
Germany	29
Liechtenstein	25
Netherlands	23
Malta	20
Sweden	20
Jersey	18
Bahamas	16
Italy	15
Austria	12
Finland	8
Netherlands Antilles	8
Spain	8
Gibraltar	6
Cyprus	5
Total	3 972

Data on household wealth

The main input of our financial model measuring the welfare delivered by the asset management industry to savers is downloaded from annual national financial accounts in 13 EU countries available from the European Savings Institute's database and the Eurostat database. More precisely we used data on:

- Outstanding financial assets held by European households.
- Investment flows by European households.
- Capital gains or losses of European households.

As capital gains or losses are not available in the national accounts for all countries, we processed estimations for countries where such data were missing. Estimations are based on the following components of national financial accounts.

- "Changes in volume" accounts mainly register statistical breaks.
- "Other changes" accounts register all other sources of changes in holdings of financial assets.

Finally, we used only one time series from national non-financial accounts in each country; the "Property income attributed to insurance policy holders – D44".

III. The seven research questions

1. Investment performance

Questions on the efficiency of the investment industry at allocating resources have been raised for a long time. In 1973, Princeton University Professor Burton G. Malkiel stated in his bestselling book A Random Walk Down Wall Street that "…a blindfolded monkey throwing darts at a newspaper's financial pages could select a portfolio that would do just as well as one carefully selected by experts." There have been numerous simulations evolving around this famous quotation with mixed results depending on the basic parameters. Indeed, it is important to keep in mind determining variables of performance, such as the investment horizon (e. g. day trading vs. long-term investing), portfolio weightings and size, as well as portfolio risk profiles, when assessing asset allocations. Still, the abundance of experiments and academic literature originating from the idea that a primate could pick stocks as well as or even better than well-educated and well-paid asset managers already casts damning light on the asset management industry.

This section includes descriptive statistics on the performance, net of charges, of EU investment funds.

In the background of abundant literature, at least concerning equity funds, we have built indicators of average performance of funds from the Lipper FMI database and the BarclayHedge database. Available data allow for an extensive analysis of a ten-year period of investment from 2003 to 2012. We also computed the performance of funds for each year across this period as the ability of portfolio managers to minimise volatility is also to be taken into account.

We have processed data on UCITS and on alternative products (hedge funds, managed futures and funds of hedge funds).

Indicators have been built separately for each category of investment funds, namely equity funds, bond funds, monetary funds, balanced funds, hedge funds, CTAs and funds of hedge funds. We have selected specific benchmarks for each category of funds, when available.

Our performance indicators are based on the variation of the net asset value (NAV) of each fund. The NAV is calculated as the net value of the portfolio of a fund, divided by the number of the fund's shares held by investors. Each day, operating costs, trading costs and management fees are already deducted pro-rata from the value of the portfolio for the calculation of the NAV. Hence, data on management fees should not be processed for our calculation. Inversely, entry fees and redemption fees should be deducted from the performance, on the first and last year of the period under review.

We also calculated a return which takes into account that most individual investors tend to hold their investments in funds only for a limited time span before rebalancing their portfolio with other funds. To account for this fund switching behaviour, we calculated the return for an investor with an

average holding period of five years, which implies paying subscription fees and redemption fees twice over a period of ten years.

There are cumulative funds and distributing funds.

Cumulative funds are more numerous than distributing funds. Income and capital gains generated remain permanently in the fund's assets. Since they do not distribute any dividend or other income to investors, the NAV is a relevant indicator of performance, if entry and redemption costs are taken into account.

Distributing funds distribute dividends or capital gains to their holders and this income is part of the performance. However, the income distributed by funds is not available in our fund databases. Hence, distributing funds have been excluded from our samples to avoid an under-estimation of average fund performances.

Performance indicators are calculated on a nominal basis and on a "real" basis, after deduction of the inflation rate ("Harmonised Indices of Consumer Prices – HICP, country indices available from Eurostat).

We have calculated performance indicators according to the focus of investment. Indicators by domiciliation can be misleading in countries where investors tend to hold a high proportion of funds with a domicile in another EU country, especially Luxembourg and Ireland. Hence, we compared performances of funds with benchmarks corresponding to their focus of investment. Benchmarks are indices based on prices of transactions. It is important to note that there are costs that are not taken into account in indices, such as transaction costs (exchange and broker fees), distribution costs and custody fees. Consequently, a final investor who just replicates the composition of an index in their portfolio would get a performance inferior to the index, which we took into account by deducting the average management fee for passive funds active in 2002 from the benchmark.[2]

Equity funds

Many authors measured the investment performance of equity investment funds and a majority of them found an underperformance of such funds. Chance often explains outperformances. Malkiel (1995)[3] found that US equity funds have underperformed benchmark portfolios from 1971 to 1991 both after management expenses and even gross of expenses. Cahart (1997)[4] found that persistence in mutual funds' performances does not reflect skills in stock-picking and that common factors in stock returns and mutual funds expenses (including transaction costs) explain almost all of the predictability in fund returns. Some fund managers demonstrate a particular expertise by investing

[2] Due to a lack of passive funds in the data sample for Poland and Slovakia, we had to take the average management fee for active funds.

[3] Burton G. Malkiel, "Returns from investing in Equity Mutual Funds 1971 to 1991", The Journal of Finance, Vol. 50, n°2, 1995

[4] Mark M. Cahart, "On Persistence in Mutual Fund Performance", in: The Journal of Finance, Vol. LII, n°1, March 1997.

most heavily in sectors that prove to outperform the rest of the market. But Lixin Huang and Jayant P.Kale (2013)[5] found that only a minority of managers demonstrating a specific expertise of investing not only in an outperforming industry but also in "related industries" (suppliers and customers of the main industry) show a significant outperformance over the market.

A limitation of many academic studies is the absence of regional coverage that would enable comparisons to be made of the performance of European funds and of funds located in the rest of the world. There are some performance comparisons run by banks or consultancies, but many of them are not completely reliable.

A recent study by Ferreira and al (2013)[6] brings new light to this issue; they run an extensive cross-country analysis of equity funds' performances. They found that equity mutual funds around the world underperformed in their domestic market over the period 1997-2007. They measured various factors contributing negatively or positively to funds' performances. For instance, fund size is associated with worse performance in the US, whereas the reverse is observed in the European market. They also evidenced a positive correlation between mutual funds' performances and the quality of the home trading and legal environment.

We processed data from the Lipper FMI database in order to run more detailed statistics on European funds, by country and by type of fund. The benchmarks used for comparison are mainly total return indices.

The choice of benchmarks to assess investment performances depends on the focus of investment of each fund. We have calculated indicators for funds with a pan-European focus of investments and funds with a focus of investments in the following countries: Belgium, Denmark, France, Finland, Germany, Greece, Italy, Netherlands, Poland, Portugal, Slovakia, Spain, Sweden, Romania and the United Kingdom.

We considered that the first year of investment performance was diminished by the maximum subscription fees and that the last year of investment performance was diminished by the maximum redemption fees disclosed by each fund. We also calculated an alternative taking into account switching behaviours.

[5] Lixin Huang and Jayant R. Kale, "Product Market Linkages, Manager Quality, and Mutual Fund Performance", in: Review of Finance, Vol. 17, 2013.

[6] Miguel A. Ferreira, Aneel Keswani, Antonio F. Miguel, and Sofia B. Ramos, "The Determinants of Mutual Fund Performance: a Cross-Country Study", in: Review of Finance, Vol. 17, n°2, 2013.

Funds with a pan-European focus of investment.

A retail investor investing with a pan-European focus at the beginning of 2003 (a historical low) and who withdrew their investment 10 years later would have gotten an average nominal annual return of 4.4% if he was charged the maximum subscription and redemption fees. After the deduction of the inflation rate, the annual real return would still be 2.2%, or 1.8% if the investor had switched the funds in their portfolio after 5 years.

A comparison of these returns with the variations of the broad European index STOXX Europe TMI (net return), net of management fees for passive funds, shows an average annual underperformance of 1.2% before deduction of subscription and redemption fees (4.4% against 5.6%).

Table 3. Performance of EU equity funds with a pan-European focus of investment (2003-2012)

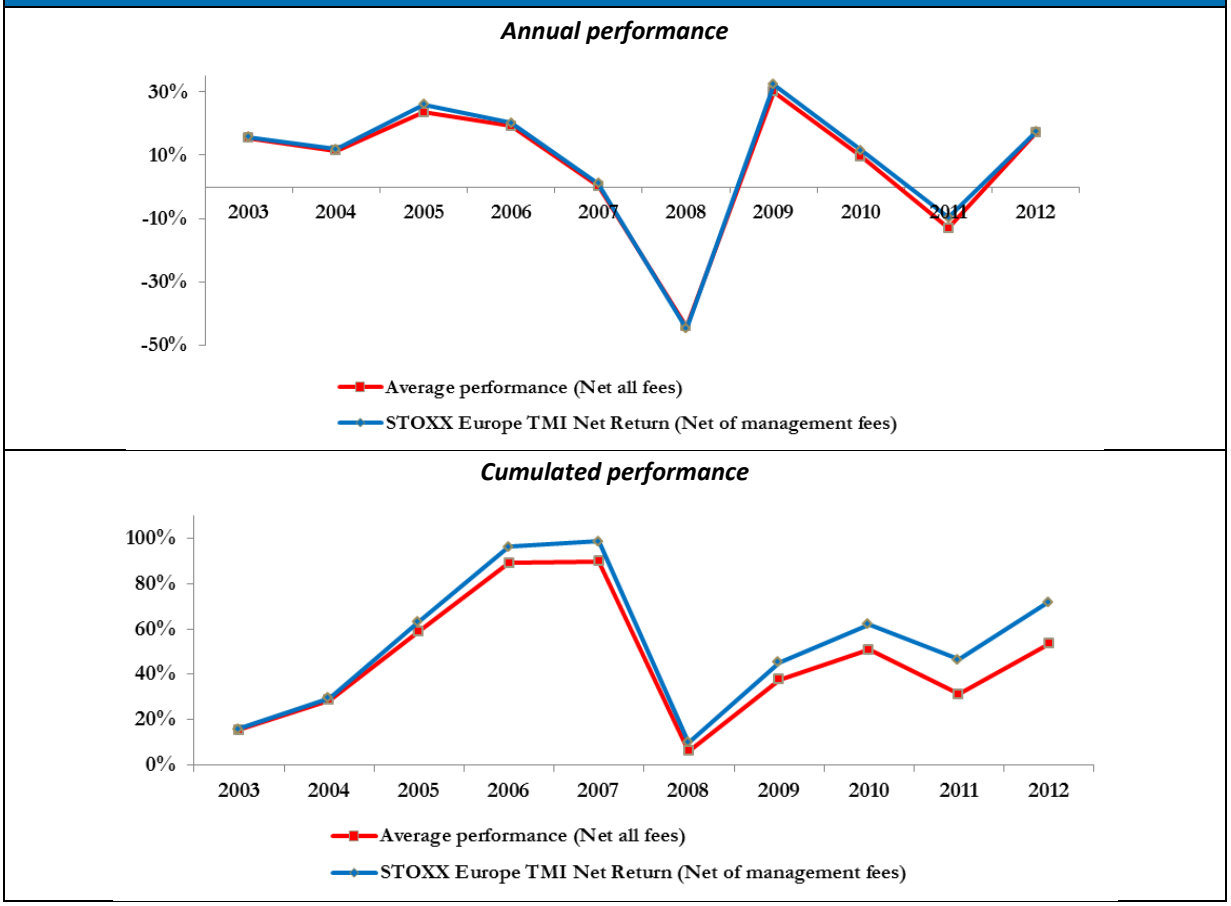
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	58.0%	53.4%
Nominal average annual performance	4.7%	4.4%
Real performance: 10 years	27.5%	23.8%
Real average annual performance	2.5%	2.2%
Real performance with switching behaviour: 10 years		19.6%
Real average annual performance with switching behaviour		1.8%

Table 4. Benchmark performance for equity funds with a pan-European focus of investment (2003-2012)

	Without fee consideration	***After deduction of average maximum management fees for passive funds***
STOXX TMI Net Return: 10 years	86.1%	71.9%
STOXX TMI Net Return: Average annual performance	6.4%	5.6%

A comparison of the average performance of equity funds with the fee-corrected benchmark shows an underperformance of funds 9 years out of 10. In 2008, the value of investment funds collapsed slightly less than the whole market (-44% compared to -45%).

Chart 1. EU equity funds with a pan-European focus of investment



Equity funds with a focus of investment on Belgium

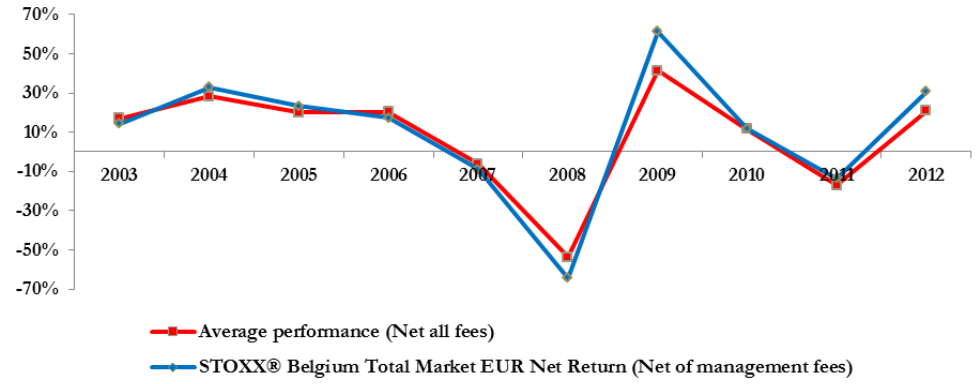
Investment funds with a geographic investment focus on Belgium outperformed their corresponding benchmark on a cumulated basis from 2007 onwards. In 2008, funds sharply fell, though less than the benchmark. An investor who subscribed at the beginning of 2003 and who exited at the end of 2012 would have beaten the benchmark by about 0.3% per year on average. The real average annual performance with switching behaviour would have been 1.5% over this time span.

Table 5. Performance of EU equity funds with a focus of investment on Belgium (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	54.9%	49.7%
Nominal average annual performance	4.5%	4.1%
Real performance: 10 years	25.5%	21.3%
Real average annual performance	2.3%	1.9%
Real performance with switching behaviour: 10 years		16.2%
Real average annual performance with switching behaviour		1.5%

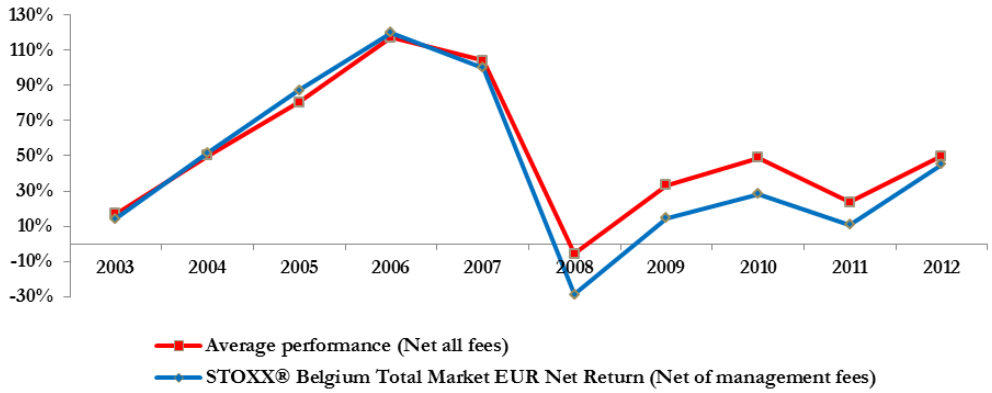
Table 6. Benchmark performance for equity funds with a focus of investment on Belgium (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
STOXX Belgium Total Market Net Return: 10 years	57.0%	45.1%
STOXX Belgium Total Market Net Return: Average annual performance	4.6%	3.8%

Chart 2. EU equity funds with a focus of investment on Belgium

Annual performance



Cumulated performance



Equity funds with a focus of investment on Denmark

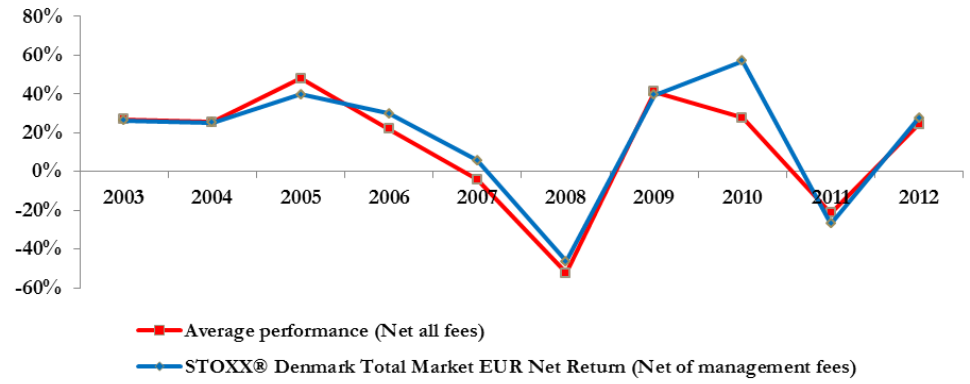
Investment funds with a geographic investment focus on Denmark outperformed their benchmark 5 times out of 10. However, the performance was somewhat similar to the benchmark, except for 2010, where the benchmark doubled the funds' performance. As a result, the underperformance of funds in 2012 against the benchmark is equal to 102% of the initial investment at the beginning of 2003. Nonetheless, this performance is still more than twice that of funds with a pan-European focus of investment. Investors would have increased their wealth by 93% in real terms. Even with switching behaviour, a strong average annual performance of 6.5% could be obtained.

Table 7. Performance of EU equity funds with a focus of investment on Denmark (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	135.6%	130.8%
Nominal average annual performance	8.9%	8.7%
Real performance: 10 years	97.2%	93.2%
Real average annual performance	7.0%	6.8%
Real performance with switching behaviour: 10 years		88.4%
Real average annual performance with switching behaviour		6.5%

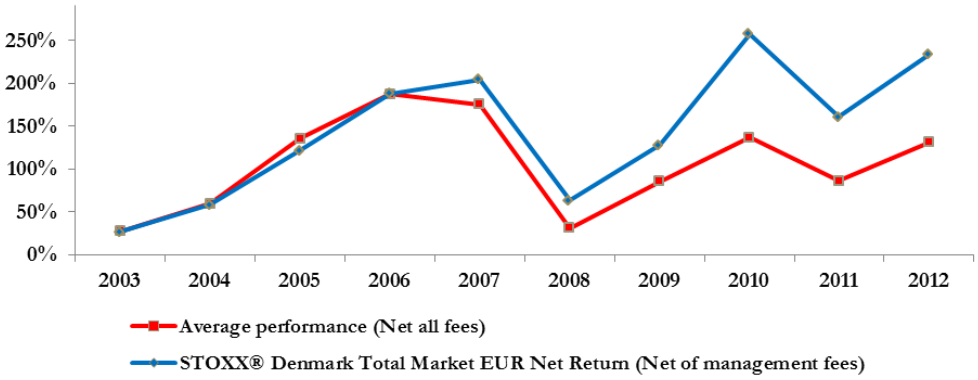
Table 8. Benchmark performance for equity funds with a focus of investment on Denmark (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
STOXX Denmark Total Market Net Return: 10 years	268.2%	233.2%
STOXX Denmark Total Market Net Return: Average annual performance	13.9%	12.8%

Chart 3. EU equity funds with a focus of investment on Denmark

Annual performance



Cumulated performance



Equity funds with a focus of investment on Finland

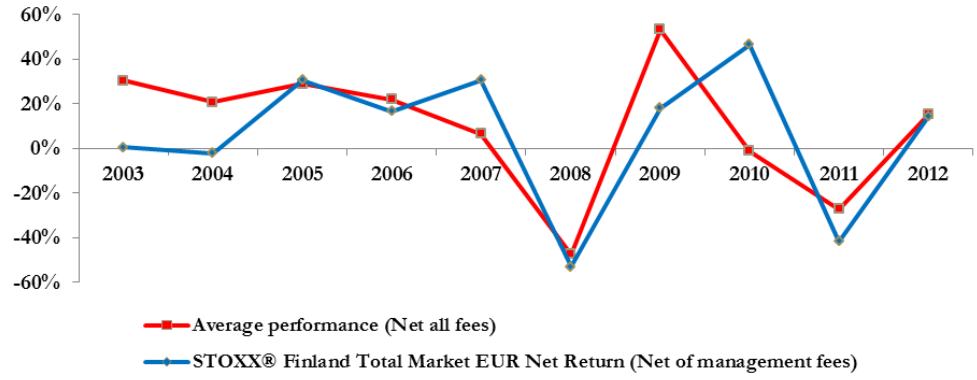
Investment funds with a geographic investment focus on Finland outperformed their benchmark by 29% in 2003 and they kept their favourable position in the following years despite underperformances in 2005, 2007 and 2010. Over a 10-year period, the outperformance over the benchmark reached 71%. This positive outcome is due to the weight of Nokia in the overall capitalisation of Finnish companies. Funds had limited their exposure to Nokia before its price collapsed, while the country's STOXX indices were not subject to any component weight restrictions and capping.

Table 9. Performance of EU equity funds with a focus of investment on Finland (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	80.1%	77.3%
Nominal average annual performance	6.1%	5.9%
Real performance: 10 years	51.5%	49.2%
Real average annual performance	4.2%	4.1%
Real performance with switching behaviour: 10 years		46.6%
Real average annual performance with switching behaviour		3.9%

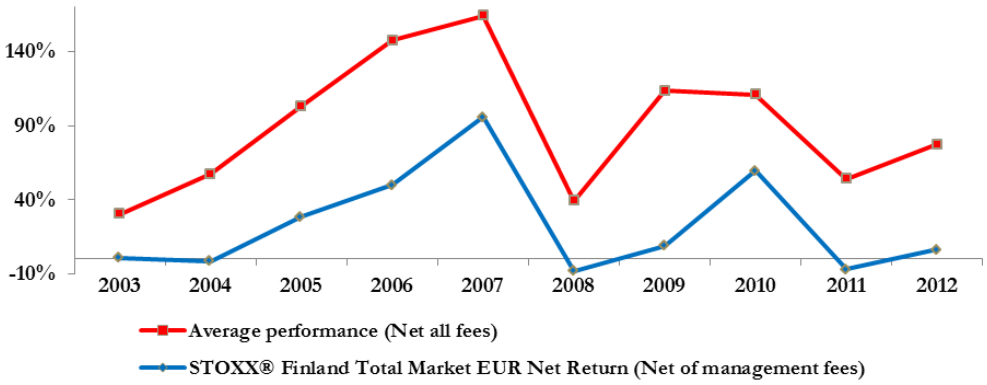
Table 10. Benchmark performance for equity funds with a focus of investment on Finland (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
STOXX Finland Total Market Net Return: 10 years	11.8%	6.4%
STOXX Finland Total Market Net Return: Average annual performance	1.1%	0.6%

Chart 4. EU equity funds with a focus of investment on Finland

Annual performance



Cumulated performance



Equity funds with a focus of investment on France

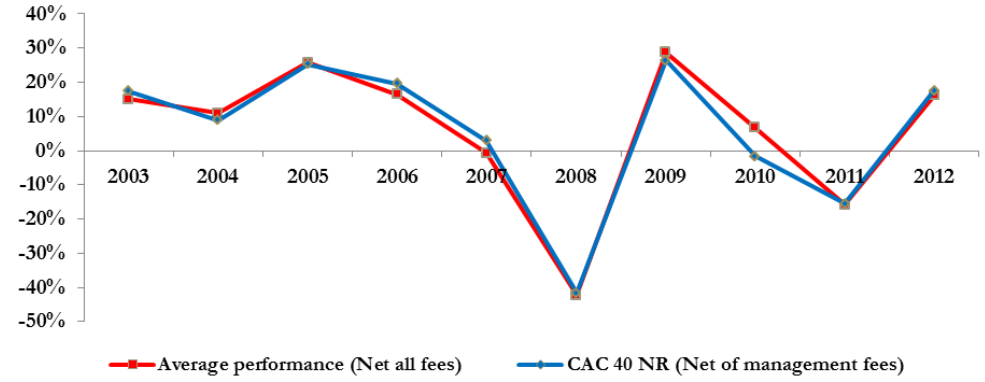
Investment funds with a geographic investment focus on France were never dramatically away from the benchmark, except for 2010, and slightly outperformed it by 0.1% on average when maximum subscription and redemption fees were taken into account.

Table 11. Performance of EU equity funds with a focus of investment on France (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	47.7%	43.5%
Nominal average annual performance	4.0%	3.7%
Real performance: 10 years	24.5%	20.9%
Real average annual performance	2.2%	1.9%
Real performance with switching behaviour: 10 years		17.0%
Real average annual performance with switching behaviour		1.6%

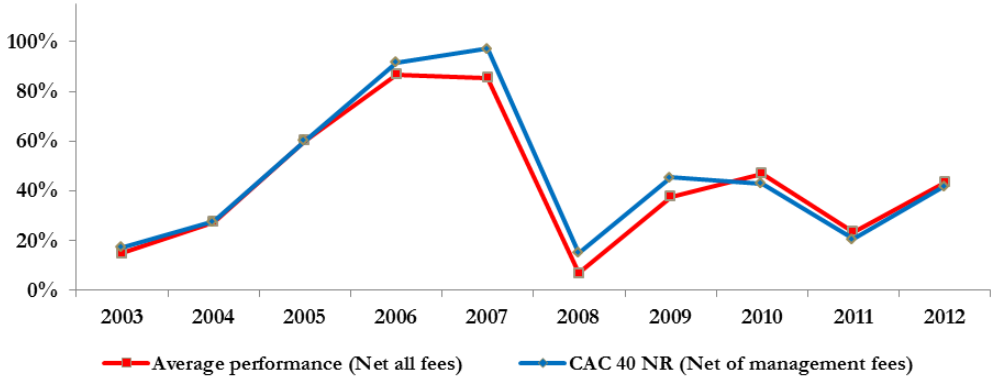
Table 12. Benchmark performance for equity funds with a focus of investment on France (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
CAC 40 Net Return: 10 years	60.8%%	41.9%
CAC 40 Net Return: Average annual performance	4.9%	3.6%

Chart 5. EU equity funds with a focus of investment on France

Annual performance



Cumulated performance



Equity funds with a focus of investment on Germany

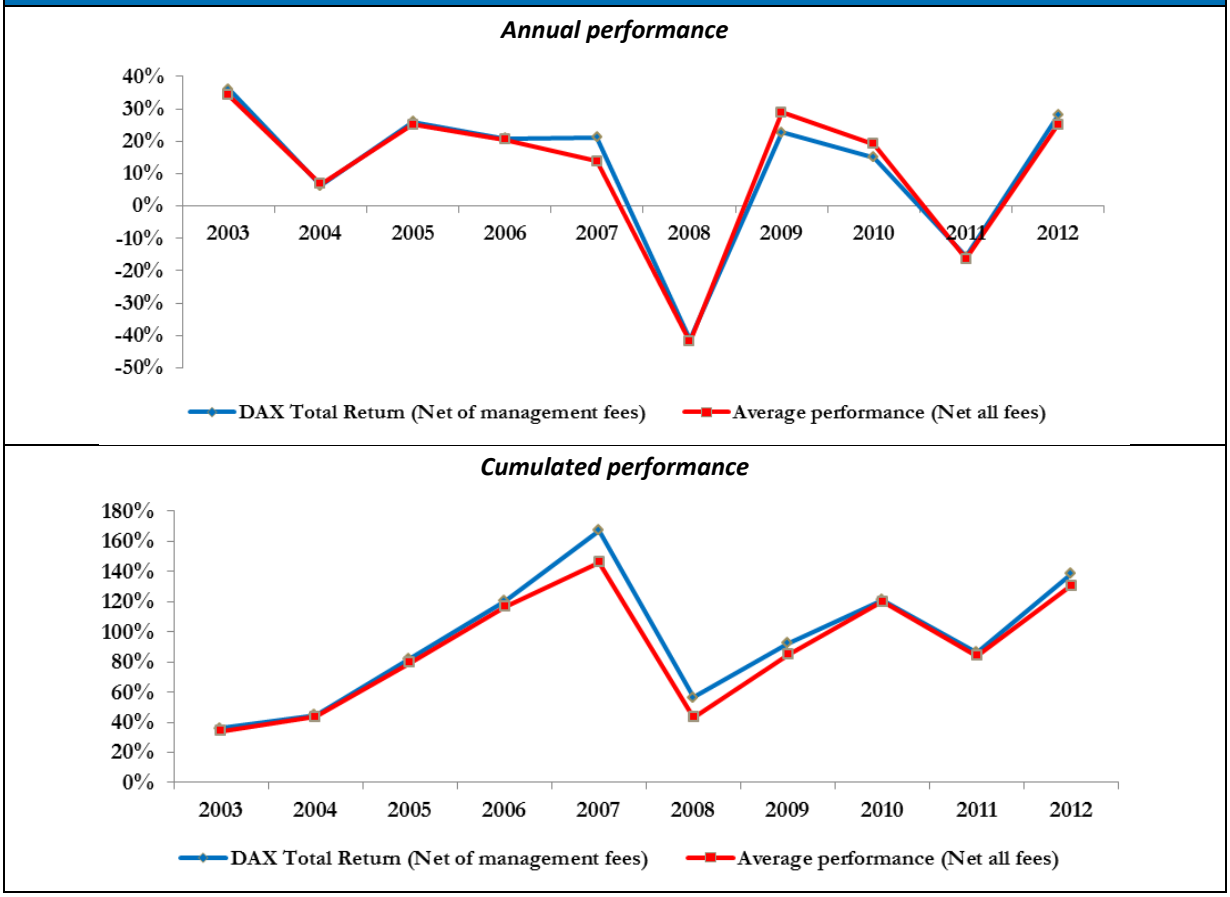
At 8.7%, investment funds with a geographic investment focus on Germany slightly underperformed their corresponding benchmark, the DAX (TR) on an annual average after deduction of maximum subscription and redemption fees.

Table 13. Performance of EU equity funds with a focus of investment on Germany (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	138.1%	130.4%
Nominal average annual performance	9.1%	8.7%
Real performance: 10 years	102.2%	95.7%
Real average annual performance	7.3%	6.9%
Real performance with switching behaviour: 10 years		87.4%
Real average annual performance with switching behaviour		6.5%

Table 14. Benchmark performance for equity funds with a focus of investment on Germany (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
DAX Total Return: 10 years	163.2%	138.6%
DAX Total Return: Average annual performance	10.2%	9.1%

The comparison of the average performance with the benchmark shows a considerable underperformance of about 7% in 2007, whilst in 2009 an outperformance of 6% was attained.

Chart 6. EU equity funds with a focus of investment on Germany



Equity funds with a focus of investment on Greece

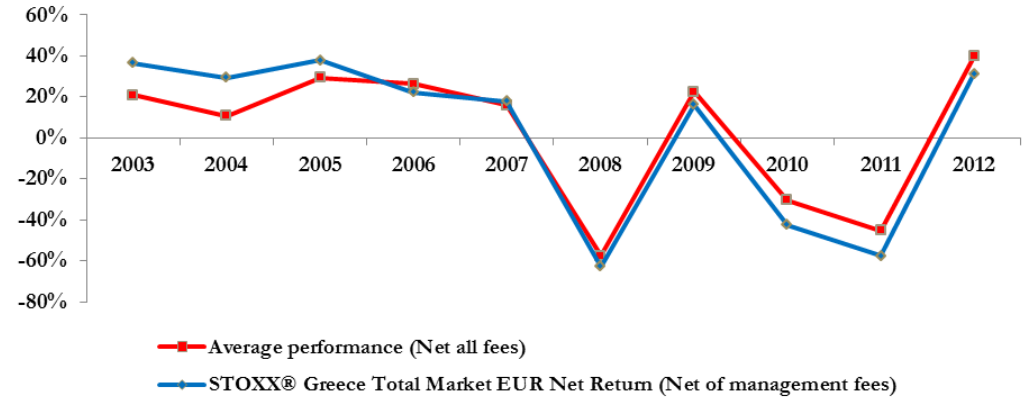
Greece is one of only three countries where the total net return benchmark showed a negative performance over the period 2003-2012 (with Italy and Portugal being the other ones). The performance of funds was also negative, by 46% in real terms. However, the performance of investment funds was not as bad as that of the benchmark. Funds mostly underperformed the index in the environment of rising markets until 2007, but they were more resistant to falling markets in the aftermath of the financial crisis and the sovereign debt crisis.

Table 15. Performance of EU equity funds with a focus of investment on Greece (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	-26.8%	-29.8%
Nominal average annual performance	-3.1%	-3.5%
Real performance: 10 years	-44.0%	-46.3%
Real average annual performance	-5.6%	-6.0%
Real performance with switching behaviour: 10 years		-48.9%
Real average annual performance with switching behaviour		-6.5%

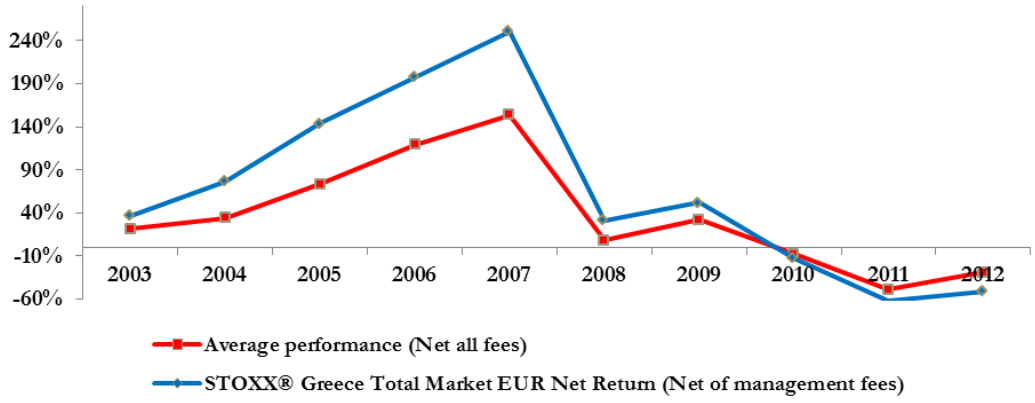
Table 16. Benchmark performance for equity funds with a focus of investment on Greece (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
STOXX Greece Total Market Net Return: 10 years	-37.7%	-51.2%
STOXX Greece Total Market Net Return: Average annual performance	-4.6%	-6.9%

Chart 7. EU equity funds with a focus of investment on Greece

Annual performance



Cumulated performance



Equity funds with a focus of investment on Italy

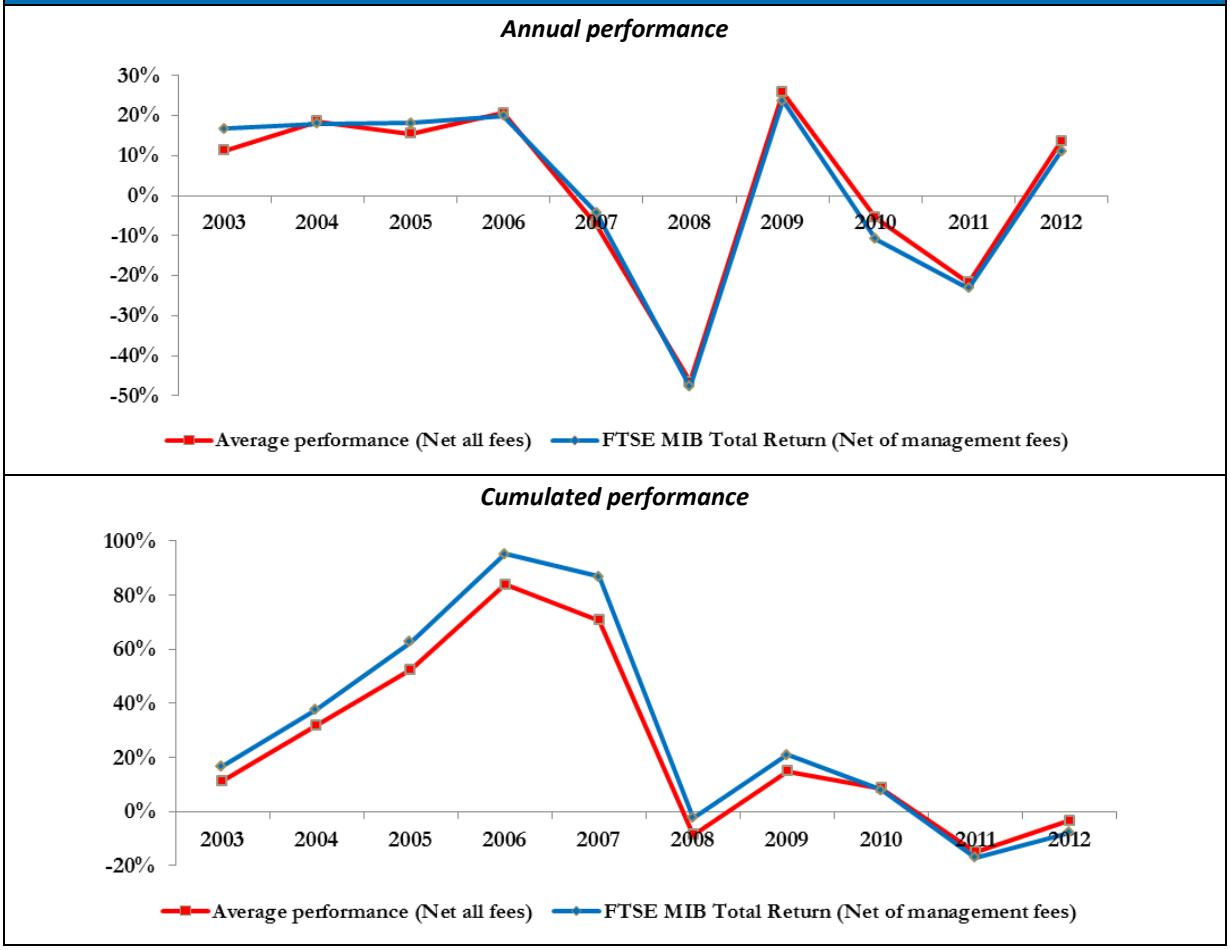
The average annual performance of funds focused on Italy and the return of the corresponding benchmark were negative in nominal terms during the period 2003-2012.

Funds delivered a negative real performance of 21% when maximum subscription and redemption fees are taken into account. The fund performances were very close to the benchmark every year.

Table 17. Performance of EU equity funds with a focus of investment on Italy (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	0.0%	-3.3%
Nominal average annual performance	0.0%	-0.3%
Real performance: 10 years	-18.5%	-21.3%
Real average annual performance	-2.0%	-2.4%
Real performance with switching behaviour: 10 years		-24.8%
Real average annual performance with switching behaviour		-2.8%

Table 18. Benchmark performance for equity funds with a focus of investment on Italy (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
FTSE MIB Total Return: 10 years	2.8%	-7.8%
FTSE MIB Total Return: Average annual performance	0.3%	-0.8%

Chart 8. EU equity funds with a focus of investment on Italy



Equity funds with a focus of investment on the Netherlands

The performance of funds focused on the Netherlands remained close to the benchmark until 2009 when they lagged behind the bullish market in 2010 and did not catch up in the following years, whilst in the crises of 2011, they showed more resilience and fell by only about half of the benchmark.

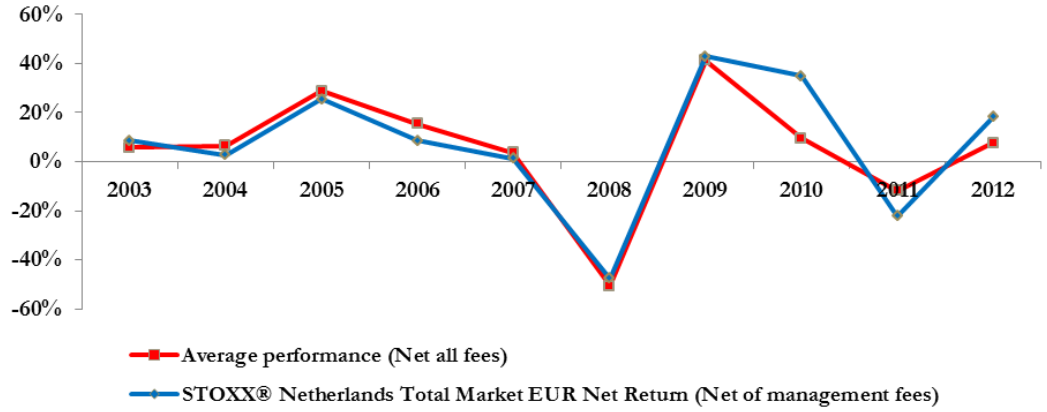
Ten years after an investment at the beginning of 2003, an investor would have withdrawn a sum slightly above the initial investment in real terms with switching behaviour (4.3%).

Table 19. Performance of EU equity funds with a focus of investment on the Netherlands (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	29.4%	25.4%
Nominal average annual performance	2.6%	2.3%
Real performance: 10 years	10.9%	7.5%
Real average annual performance	1.0%	0.7%
Real performance with switching behaviour: 10 years		4.3%
Real average annual performance with switching behaviour		0.4%

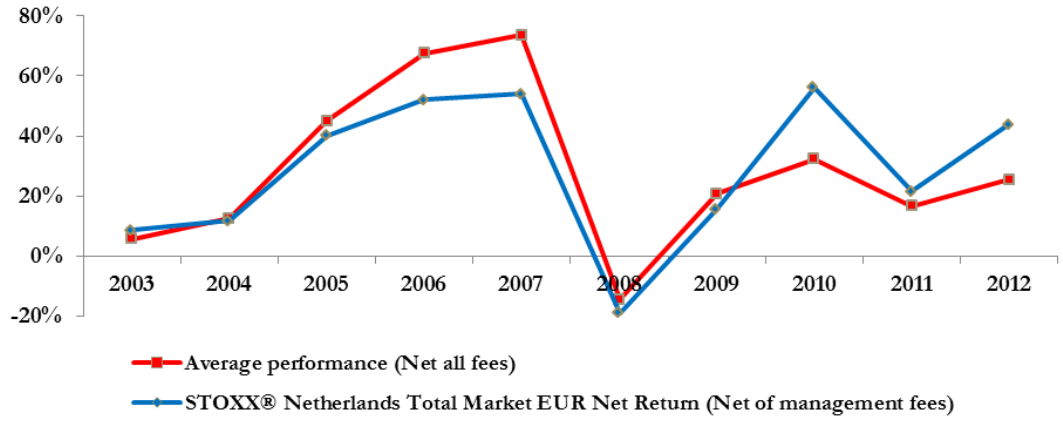
Table 20. Benchmark performance for equity funds with a focus of investment on the Netherlands (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
STOXX Netherlands Total Market Net Return: 10 years	57.9%	43.8%
STOXX Netherlands Total Market Net Return: Average annual performance	4.7%	3.7%

Chart 9. EU equity funds with a focus of investment on the Netherlands

Annual performance



Cumulated performance



Equity funds with a focus of investment on Poland

The funds focusing on Poland are in the group of products that delivered the best performances. The initial investment at the beginning of 2003 more than doubled after 10 years in nominal terms and increased by 60% in real terms after deduction of subscription and redemption fees.

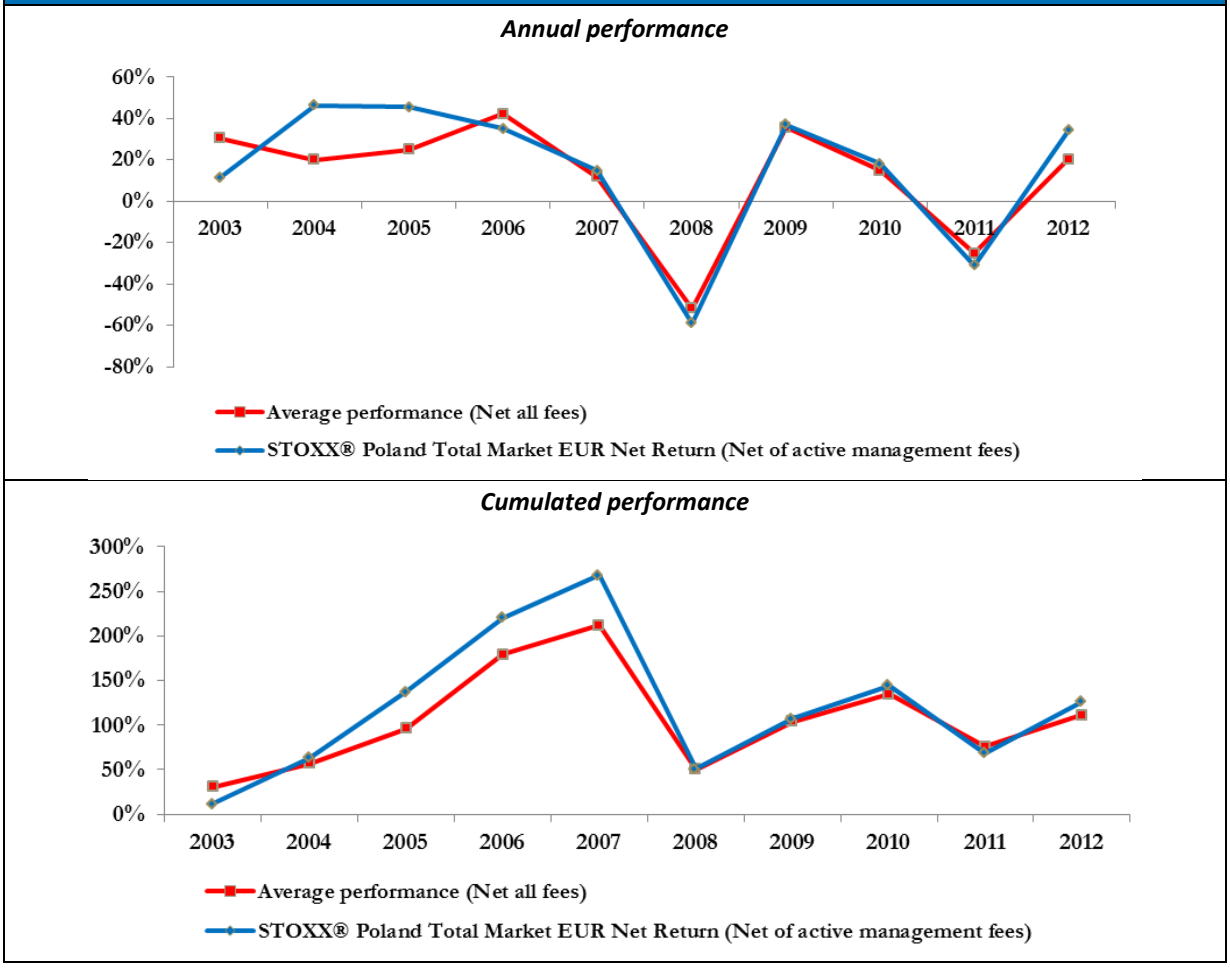
However, the performances of funds as compared to the benchmark before fee deductions are rather poor as the STOXX index of Poland more than tripled during this period. After deducting average management fees for active funds from the benchmark, the performance of funds is almost similar to the benchmark from 2008 on.

One should take into account that only 20 funds could be analysed, with 17 of them still in existence in 2012.

Table 21. Performance of EU equity funds with a focus of investment on Poland (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	118.1%	111.1%
Nominal average annual performance	8.1%	7.8%
Real performance: 10 years	65.5%	60.2%
Real average annual performance	5.2%	4.8%
Real performance with switching behaviour: 10 years		53.6%
Real average annual performance with switching behaviour		4.4%

Table 22. Benchmark performance for equity funds with a focus of investment on Poland (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for active funds***
STOXX Poland Total Market Net Return: 10 years	217.1%	126.3%
STOXX Poland Total Market Net Return: Average annual performance	12.2%	8.5%

Chart 10. EU equity funds with a focus of investment on Poland



Equity funds with a focus of investment on Portugal

The funds focusing on Portugal delivered a null performance in real terms during the period 2003-2012.

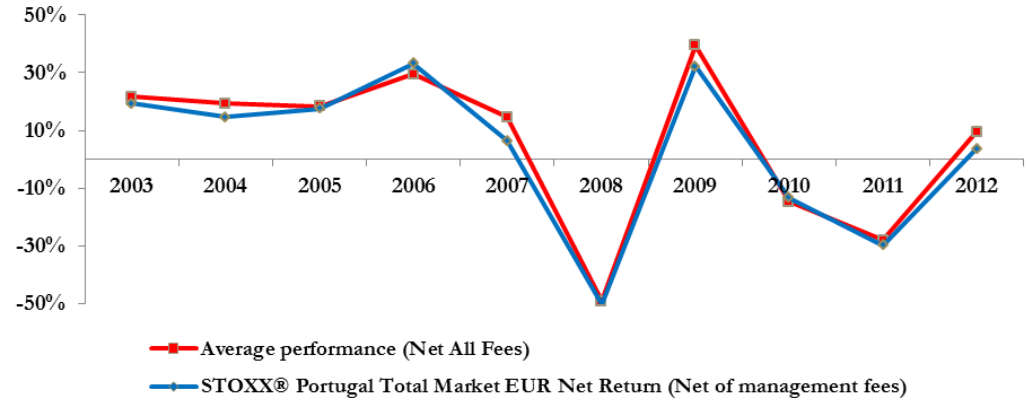
The performance of funds was tightly correlated with the benchmark albeit with strong outperformances in 2007 and 2009 (8% and 9%). Over 10 years, the accumulated performance was superior to the benchmark, which delivered negative nominal returns.

Table 23. Performance of EU equity funds with a focus of investment on Portugal (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	24.3%	21.4%
Nominal average annual performance	2.2%	2.0%
Real performance: 10 years	2.5%	0.1%
Real average annual performance	0.2%	0.0%
Real performance with switching behaviour: 10 years		-2.0%
Real average annual performance with switching behaviour		-0.2%

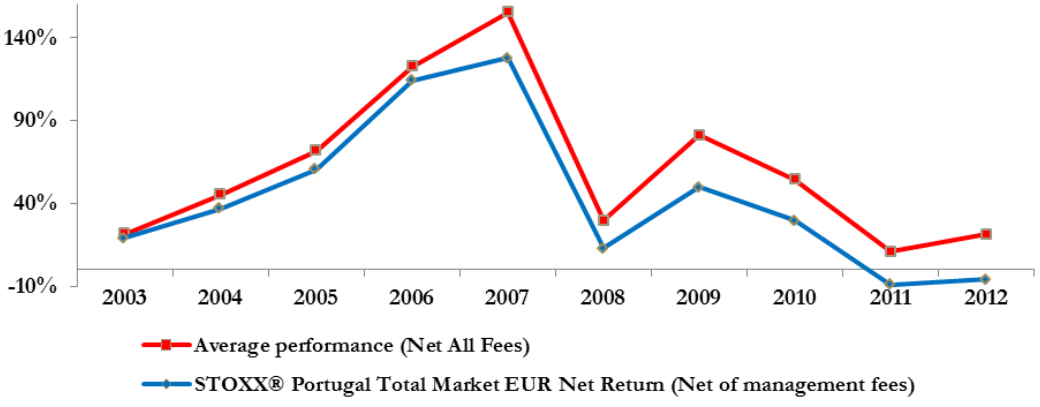
Table 24. Benchmark performance for equity funds with a focus of investment on Portugal (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
STOXX Portugal Total Market Net Return: 10 years	6.7%	-5.7%
STOXX Portugal Total Market Net Return: Average annual performance	0.7%	-0.6%

Chart 11. EU equity funds with a focus of investment on Portugal

Annual performance



Cumulated performance



Equity funds with a focus of investment on Romania

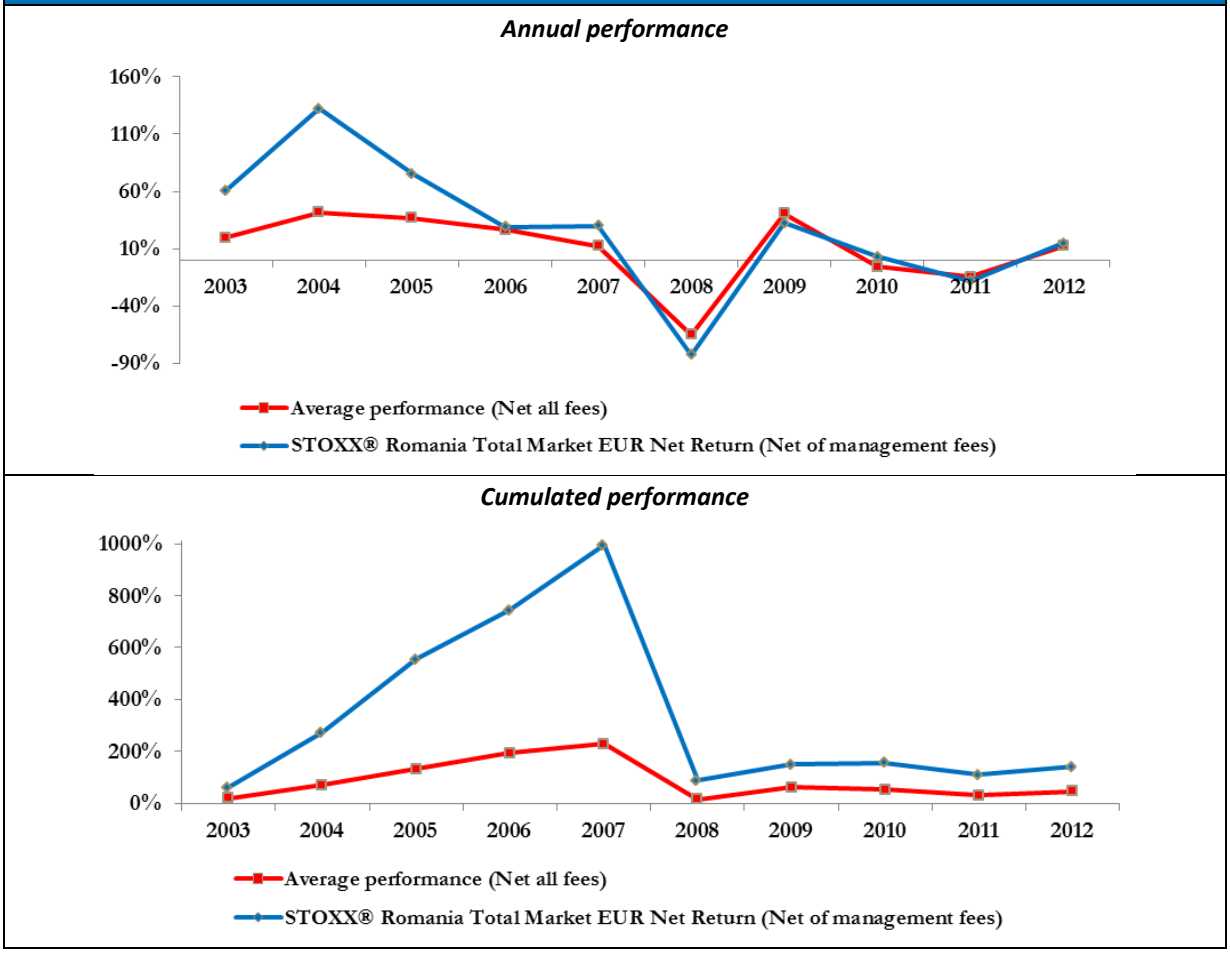
For funds focusing on Romania, the selection restrictions had to be eased in order to calculate performances. All funds with a focus on Romania were selected and not only those stating fund values in 2002. The number of funds remained, however, small with only 3 funds in 2003, 5 in 2005 and up to 18 funds at the end of 2012.

Albeit strong performances from 2003-2007 (between 12% - 41% in nominal terms), funds were constantly and, except for 2006, strongly outperformed by the corresponding benchmark, which reached an extraordinary return of 132% in 2004. While the nominal average annual performance is positive at 3.8% after deduction of all fees, the real return is clearly negative (-2.1%) due to the worst inflation rate in the EU, with an annual average of 7.6%.

Table 25. Performance of EU equity funds with a focus of investment on Romania (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	48.0%	45.8%
Nominal average annual performance	4.0%	3.8%
Real performance: 10 years	-18.0%	-19.2%
Real average annual performance	-2.0%	-2.1%
Real performance with switching behaviour: 10 years		-21.4%
Real average annual performance with switching behaviour		-2.4%

Table 26. Benchmark performance for equity funds with a focus of investment on Romania (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
STOXX Romania Total Market Net Return: 10 years	150.4%	141.0%
STOXX Romania Total Market Net Return: Average annual performance	9.6%	9.2%

Chart 12. EU equity funds with a focus of investment on Romania



Equity funds domiciled in Slovakia

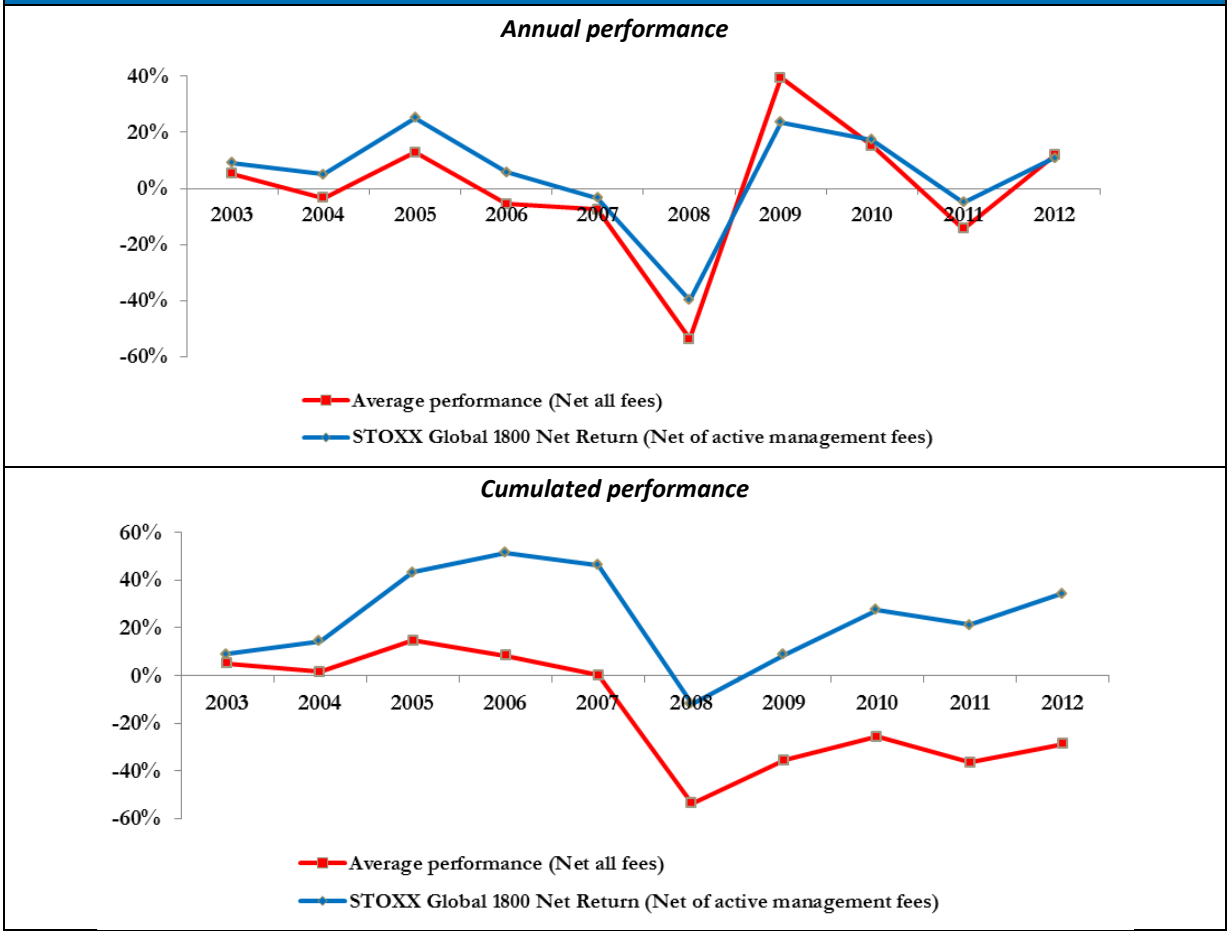
There are no equity funds exclusively investing in Slovakia in the Lipper FMI database. To cover the market, we took funds that are domiciled in Slovakia without restrictions to the investment focus and without the necessity to report fund values in 2002. About 60% of the funds had a global focus of investment so one could use the Stoxx Global 1800 as a corresponding benchmark.

Slovakian funds delivered negative performances 5 out of 10 years, with particular losses in 2008 (54%) after deduction of all fees. The strongest year followed in 2009 with 39% in nominal terms. The real average annual performance was clearly negative at 6% and, delivered together with funds with a focus of investment on Greece, the worst performance of all equity funds.

Table 27. Performance of equity funds domiciled in Slovakia (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	-24.9%	-28.9%
Nominal average annual performance	-2.8%	-3.3%
Real performance: 10 years	-43.9%	-46.9%
Real average annual performance	-5.6%	-6.1%
Real performance with switching behaviour: 10 years		-50.3%
Real average annual performance with switching behaviour		-6.8%

Table 28. Benchmark performance for equity funds domiciled in Slovakia (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for active funds***
STOXX Global 1800 Net Return: 10 years	66.4%	34.4%
STOXX Global 1800 Net Return: Average annual performance	5.2%	3.0%

Chart 13. Equity funds domiciled in Slovakia



Equity funds with a focus of investment on Spain

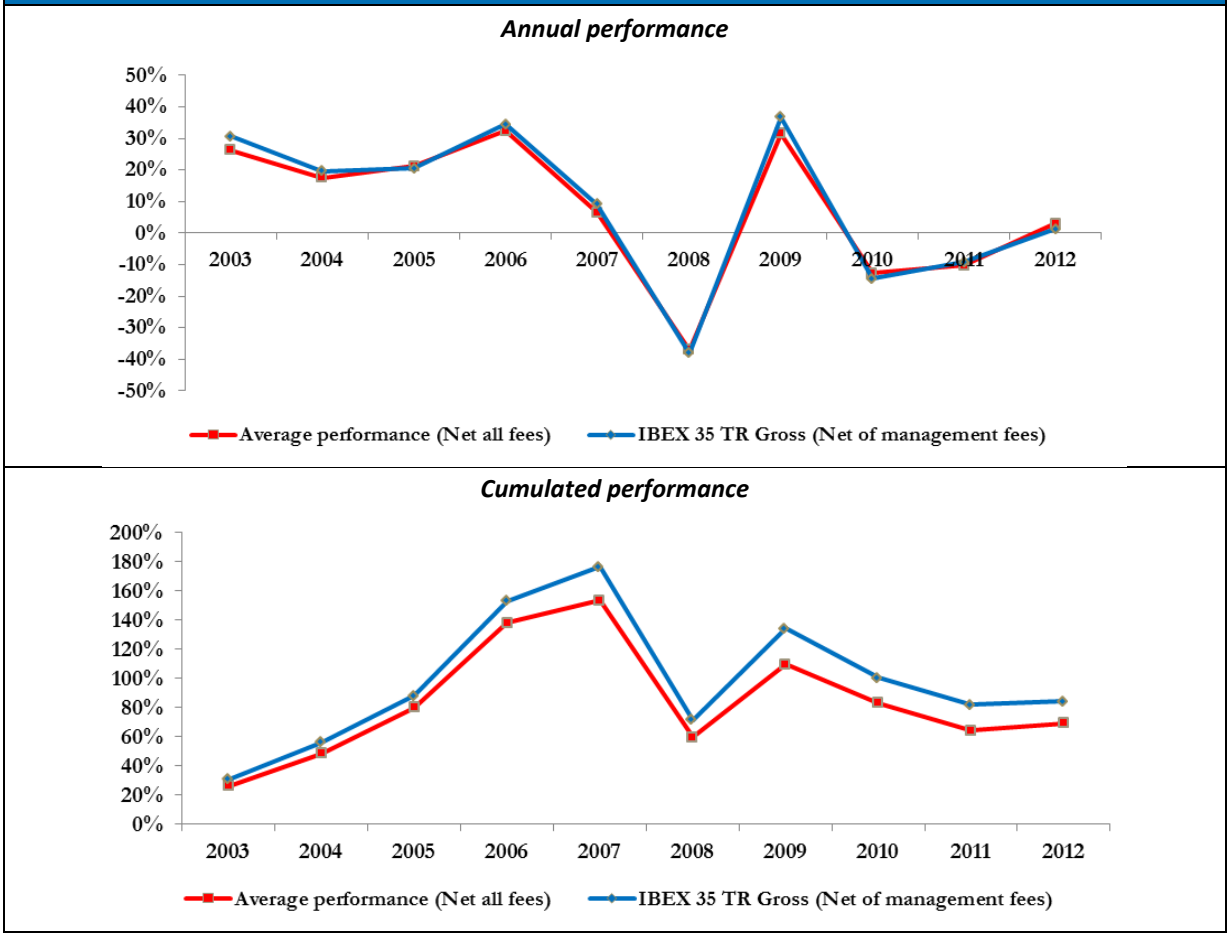
The funds focusing on Spain delivered a performance of 33% in real terms over the period 2003-2012.

The performance of funds was inferior to the benchmark 6 out of 10 years. Over 10 years, the accumulated nominal performance was about 15% inferior to the benchmark but a real average annual performance of about 3% with switching behaviour could be achieved.

Table 29. Performance of EU equity funds with a focus of investment on Spain (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	71.5%	69.3%
Nominal average annual performance	5.5%	5.4%
Real performance: 10 years	35.1%	33.3%
Real average annual performance	3.1%	2.9%
Real performance with switching behaviour: 10 years		32.0%
Real average annual performance with switching behaviour		2.8%

Table 30. Benchmark performance for equity funds with a focus of investment on Spain (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
IBEX 35 TR Gross: 10 years	113.2%	84.4%
IBEX 35 TR Gross: Average annual performance	7.9%	6.3%

Chart 14. EU equity funds with a focus of investment on Spain



Equity funds with a focus of investment on Sweden

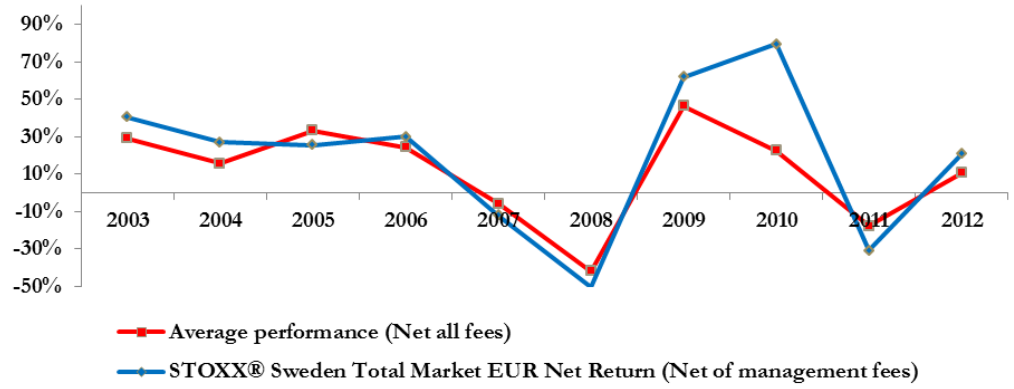
Sweden was the focus of investment that delivered the highest performance together with Denmark. In real terms, the initial investment in 2003 would have almost doubled 10 years later. The performances of the funds were close to the benchmark until 2010, but the funds captured only a small portion of the sharp market rise in 2010 and they did not catch up in the following years.

Table 31. Performance of EU equity funds with a focus of investment on Sweden (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	124.0%	121.8%
Nominal average annual performance	8.4%	8.3%
Real performance: 10 years	94.0%	92.1%
Real average annual performance	6.9%	6.7%
Real performance with switching behaviour: 10 years		89.8%
Real average annual performance with switching behaviour		6.6%

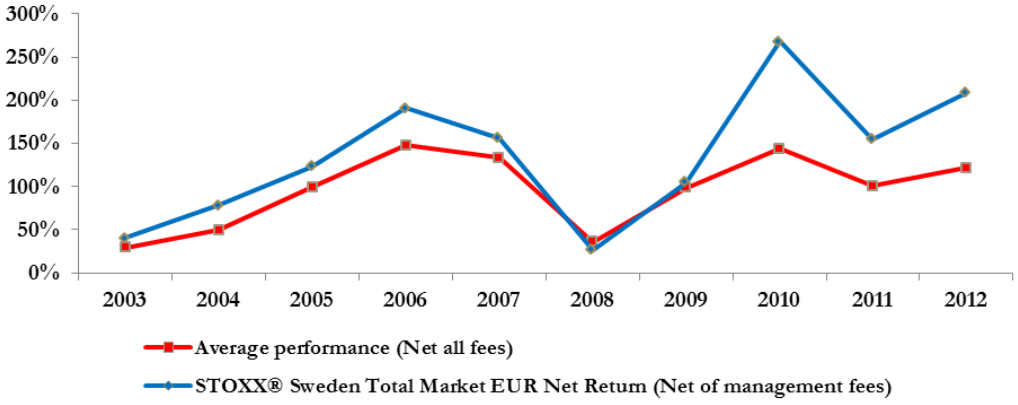
Table 32. Benchmark performance for equity funds with a focus of investment on Sweden (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
STOXX Sweden Total Market Net Return: 10 years	225.4%	208.6%
STOXX Sweden Total Market Net Return: Average annual performance	12.5%	11.9%

Chart 15. EU equity funds with a focus of investment on Sweden

Annual performance



Cumulated performance



Equity funds with a focus of investment on the United Kingdom

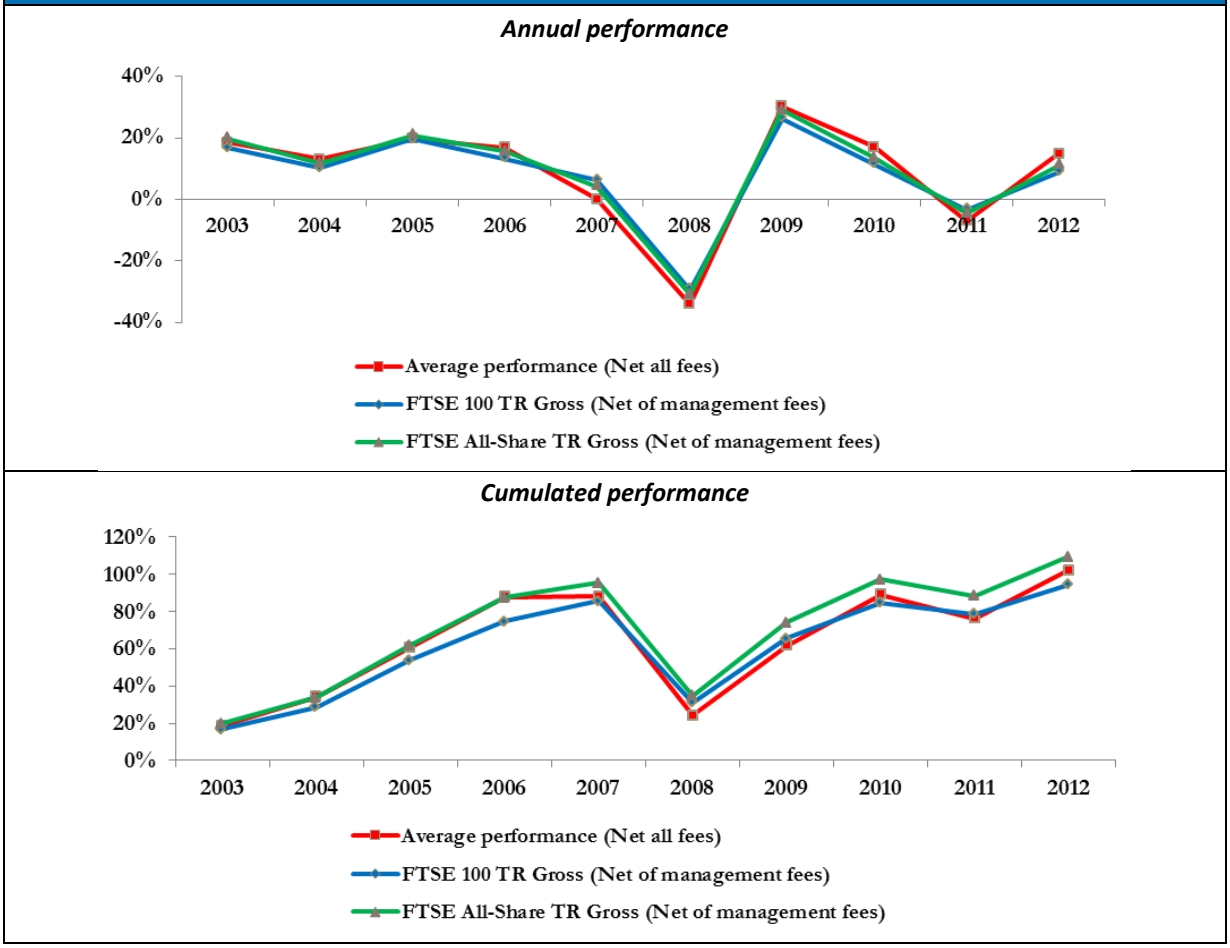
The United Kingdom is the focus of investment with the largest number of funds in our sample (708).

The annual performance of funds is close to the benchmark every year and it is neither systematically inferior nor superior. Throughout the whole period, they delivered a nominal performance slightly superior to the FTSE 100 total return index after fees were taken into account. We usually took the blue chip indices when available, however in the British case, we added the FTSE All-Share index, which would have slightly outperformed the funds by 0.4% on an annual average.

Table 33. Performance of EU equity funds with a focus of investment on the United Kingdom (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	108.9%	102.2%
Nominal average annual performance	7.6%	7.3%
Real performance: 10 years	64.2%	59.0%
Real average annual performance	5.1%	4.7%
Real performance with switching behaviour: 10 years		52.8%
Real average annual performance with switching behaviour		4.3%

Table 34. Benchmark performance for equity funds with a focus of investment on the United Kingdom (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
FTSE 100 TR Gross: 10 years	115.2%	94.6%
FTSE 100 TR Gross: Average annual performance	8.0%	6.9%
FTSE All-Share TR Gross: 10 years	131.7%	109.6%
FTSE All-Share TR Gross: Average annual performance	8.8%	7.7%

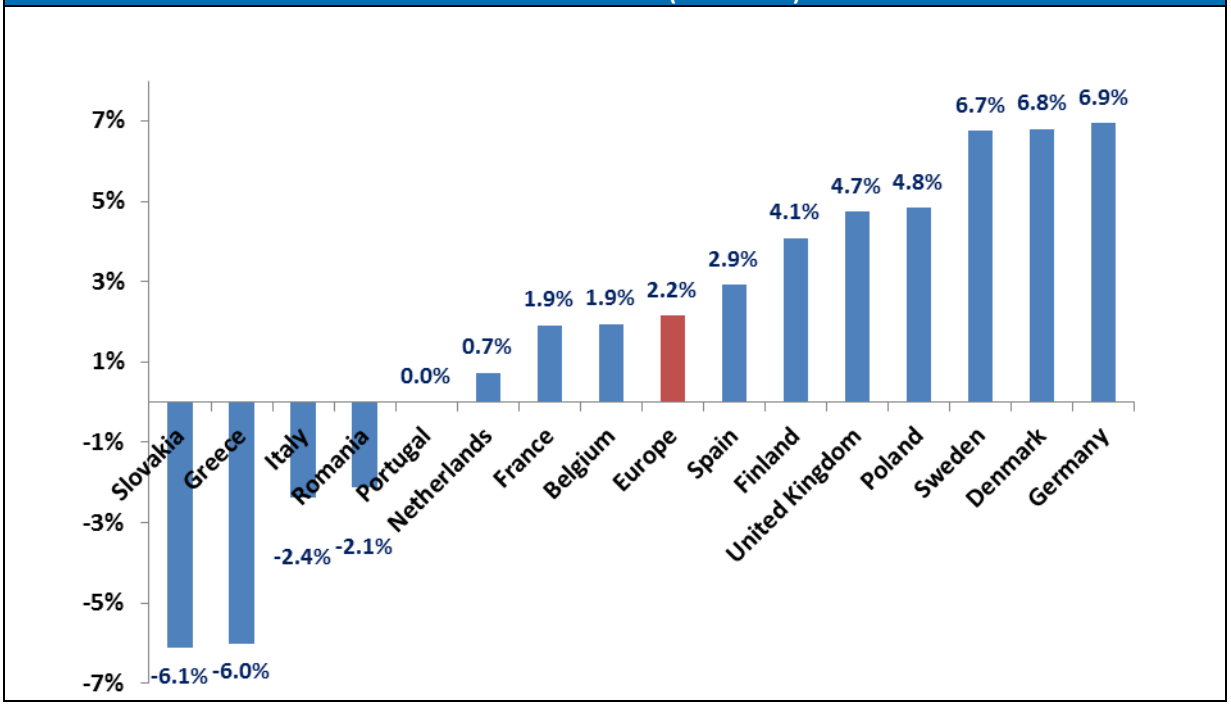
Chart 16. EU equity funds with a focus of investment on the United Kingdom



Summary of findings on equity funds

Charts 17 and 18 reflect a summary of our equity funds performance findings. The real performances are indicated net of all fees. The Slovakian pillar shows funds domiciled in Slovakia. The average annual out/underperformances are calculated net of all fees for funds and, whenever available, net of average management fees for passive funds in the case of the benchmarks.

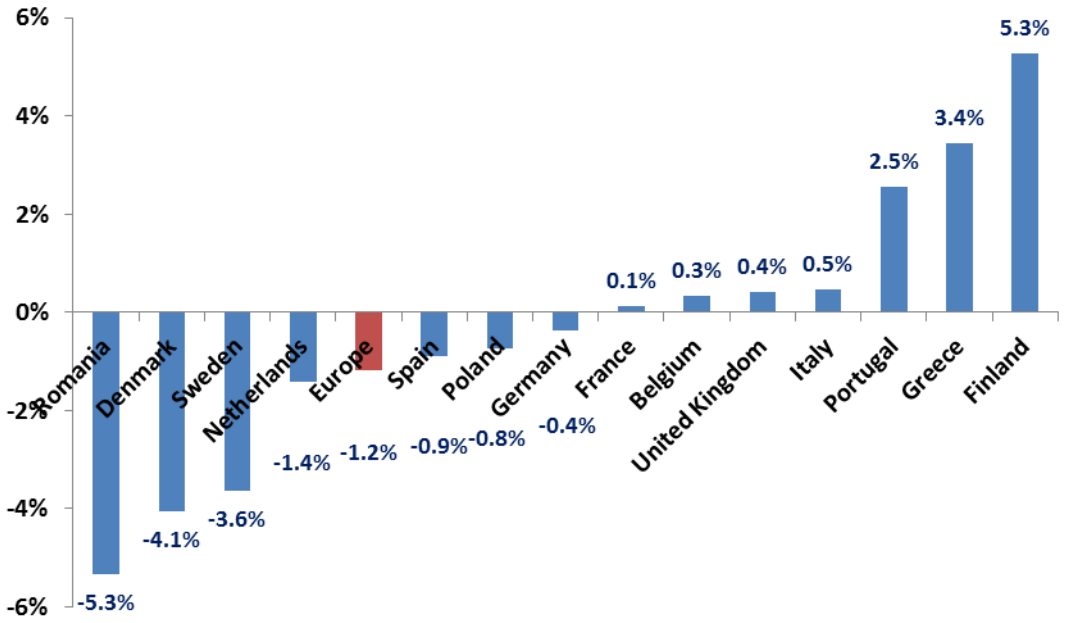
Chart 17. Real average annual performance of equity funds depending on the investment focus (2003-2012)



Over a ten-year period of investment, from the beginning of 2003 to the end of 2012, seven categories of equity funds (defined according to their focus of investment) outperformed their benchmark, and eight underperformed their benchmark. Funds with a pan-European focus of investment underperformed by 1.2% per year on average.

Over the ten-year period (2003-2012), the average underperformance of EU equity funds weighted by Total Net Assets was 23.6%. Applied to the total net assets of equity funds at the end of 2003 (€1,173 bn, source: EFAMA), the theoretical loss suffered by investors is €277 bn.

Chart 18. Average annual out/underperformance of equity funds against their benchmark depending on the investment focus (2003-2012)



Since investment funds represent a major part of "the market", it is not surprising that average performances are close to the benchmark. It is thus important to verify the consistency of fund performances necessary for investors willing to select the best performers. For this purpose, we analysed the proportion of funds that remained in the top performance quintile over rolling periods. We chose all European Union equity funds regardless of the investment focus, a total of 9 192 funds, and identified the top performers from the period 2003-2007. For these 1 839 top performing funds, we checked how many of them were still among the top performers for the overall weaker period from 2008-2012. We found that only 31% remained among the top performers.

Hence, for savers, it is generally not possible to make investment choices on the basis of past performances.

Bond funds

The vast majority of bond funds disclose no country limitation concerning their focus of investment. Therefore, it is not possible to compare their performance with any benchmark. Detailed data on performances of funds and their benchmark are reported in Appendix 1 when available.

Below, we show the performances of bond funds with a pan-European focus of investment. A retail investor investing into bond investment funds with a pan-European investment focus at the beginning of 2003 and who withdrew its investment 10 years later, would have gotten an average nominal annual return of 3% after the deduction of maximum subscription and redemption fees. The real annual return would be about 1% and only half of it with switching behaviour every five years.

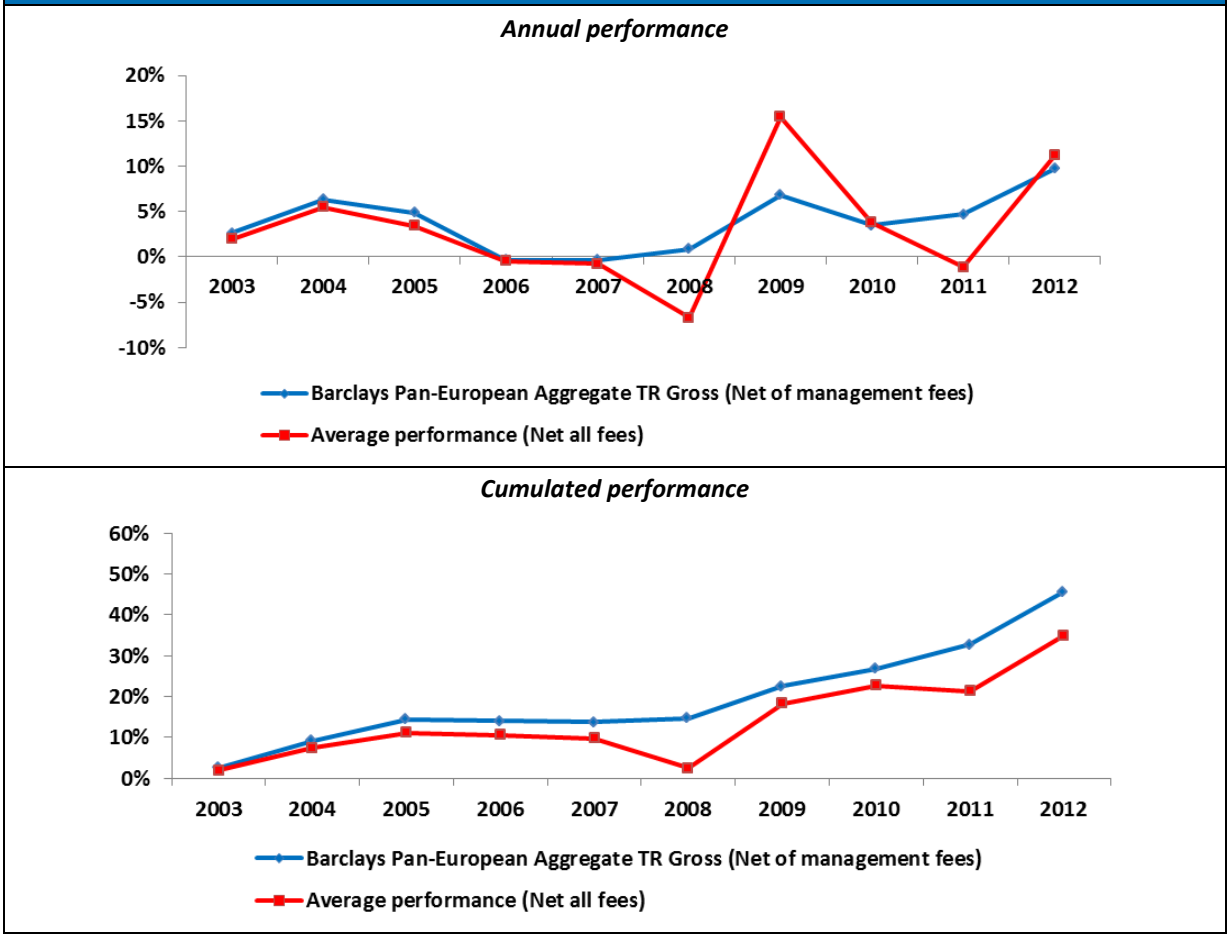
The performance comparison with the corresponding benchmark Barclays Pan-European Aggregate TR shows an average annual underperformance of 0.8% net of all fees.

Table 35. Performance of EU bond funds with a pan-European focus of investment (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	38.8%	34.9%
Nominal average annual performance	3.3%	3.0%
Real performance: 10 years	12.0%	8.9%
Real average annual performance	1.1%	0.9%
Real performance with switching behaviour: 10 years		5.3%
Real average annual performance with switching behaviour		0.5%

Table 36. Benchmark performance for bond funds with a pan-European focus of investment (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for passive funds***
Barclays Pan-European Aggregate TR Gross: 10 years	58.0%	45.6%
Barclays Pan-European Aggregate TR Gross: Average annual performance	4.7%	3.8%

Bond funds underperformed 7 years out of 10, with especially significant differences in 2008 (8%) and 2011 (6%). The performance low mark of 2008 is followed by a very strong year in 2009, where the benchmark is beaten by about 9%.

Chart 19. EU bond funds with a pan-European focus of investment



Balanced funds

Like bond funds, most balanced funds do not indicate any limitation of their area of investment.

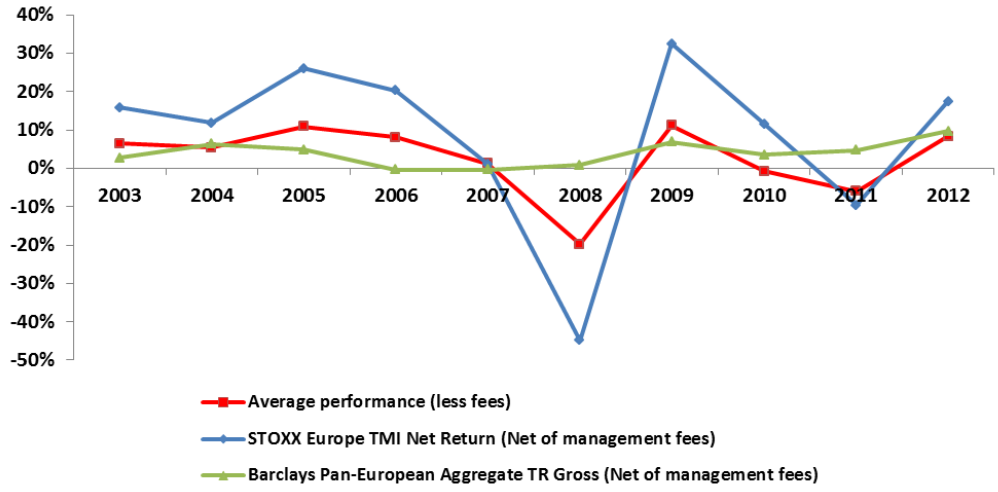
Moreover, it is not possible to select a single benchmark to assess the performance of balanced investment funds as their asset allocation may considerably vary from one fund to another. Since the main components of the portfolio of such funds are equity and bonds, their performance may be compared to both the STOXX TMI index and Barclays' bond index.

Until 2007, balanced funds' performances ranked between the Barclays index (which was the lowest) and the STOXX TMI (the highest of the two). In 2008, their performance collapsed, although roughly half as much (-20%) as the equity market benchmark (-45%). In 2011, equity markets fell again but much less (-10%) than in 2008, and in this market background, funds showed less resilience.

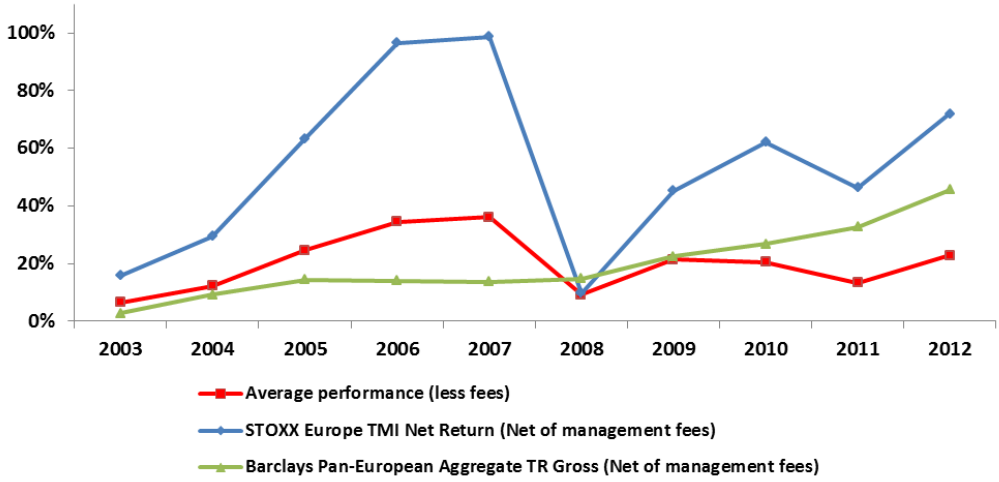
Table 37. Performance of EU balanced funds with a pan-European focus of investment (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	24.9%	22.8%
Nominal average annual performance	2.2%	2.1%
Real performance: 10 years	0.8%	-0.9%
Real average annual performance	0.1%	-0.1%
Real performance with switching behaviour: 10 years		-2.7%
Real average annual performance with switching behaviour		-0.3%

Chart 20. EU balanced funds with a pan-European focus of investment

Annual performance



Cumulated performance



Money market funds

Short-term interest rates fell to less than 0.5% since the end of 2008 as a consequence of the new monetary policy implemented by most central banks. The performance of monetary investments was obviously also extremely low over the past few years and even negative in 2010 when charges were deducted, which translated into massive withdrawals of investors from this type of investment.

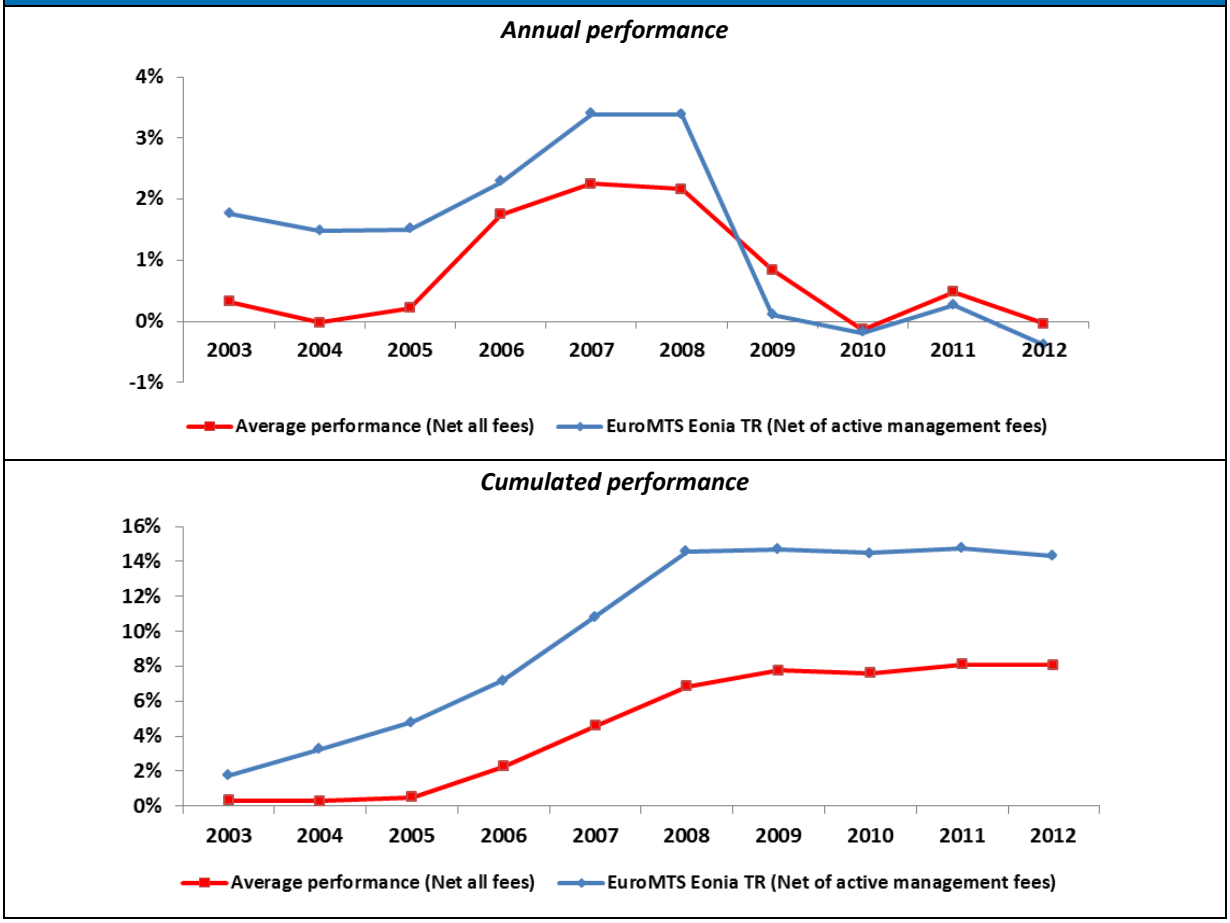
A retail investor investing into money market investment funds with a focus on the euro area at the beginning of 2003 and who withdrew its investment 10 years later would have gotten an average nominal annual return of 0.8% if he was charged the maximum fees. However, the real annual return would be clearly negative (-1.1%).

Table 38. Performance of EU money market funds with a euro area focus of investment (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	9.2%	8.1%
Nominal average annual performance	0.9%	0.8%
Real performance: 10 years	-9.7%	-10.6%
Real average annual performance	-1.0%	-1.1%
Real performance with switching behaviour: 10 years		-11.6%
Real average annual performance with switching behaviour		-1.2%

Table 39. Benchmark performance for money market funds with a euro area focus of investment (2003-2012)		
	Without fee consideration	***After deduction of average maximum management fees for active funds***
EuroMTS Eonia TR: 10 years	21.6%	14.3%
EuroMTS Eonia TR: Average annual performance	2.0%	1.3%

The average performance of money market funds shows an under-performance until 2009 compared to the EuroMTS Eonia TR index, followed by a permanent outperformance from then on. Small negative performances of money market funds were noted in 2004 (-0.02%), 2010 (-0.14%) and 2012 (-0.04%).

Chart 21. EU money market funds with a euro area focus of investment

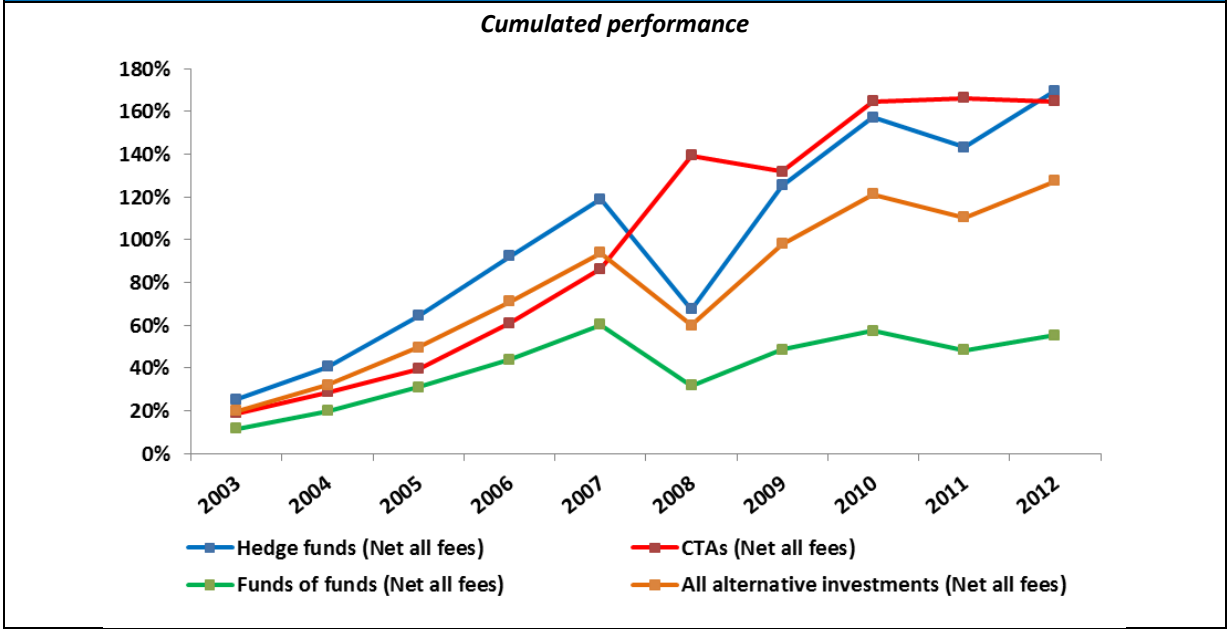


Alternative investment funds

Performances of hedge funds and managed futures (CTAs) were much better than those of most other categories of funds during the period 2003-2012. Funds of funds performance is of the same order of magnitude as equity funds with a pan-European focus of investment.

Table 40. Performance of alternative investment funds (2003-2012)				
	Hedge Funds	*CTAs*	*Funds of Funds*	*All funds*
Nominal performance: 10 years	196.3%	166.2%	68.4%	146.6%
Nominal average annual performance	10.4%	10.2%	4.5%	8.6%
Real performance: 10 years	134.2%	111.7%	37.0%	109.9%
Real average annual performance	8.1%	7.8%	2.2%	6.1%

Chart 22. Cumulated performances of alternative investment funds



2. Charges

Maximum fees which apply to most retail investors are available in the Lipper FMI database. They include:

- Maximum management fees;
- Maximum subscription fees;
- Maximum redemption fees.

Management fees are disclosed as percentages of assets under management and charged every year. Subscription fees are disclosed as percentages of the initial investment and redemption fees as percentages of withdrawals. Both are charged once, at the beginning and at the end of the investment period respectively.

We built statistics on fees according to type of funds and by domiciliation.[7] When the number of available funds was sufficient, we differentiated active funds and passive funds.

One should keep in mind that the actual subscription and redemption fees depend on the distributor of the funds. It is likely that small retail investors are charged at the maximum indicated while more wealthy investors and institutional investors are charged at a reduced rate or not charged at all.

Moreover, it is important to recognise that only a portion of those fees actually compensates portfolio managers. A study run in 2011 for EFAMA found that distributors get 53% of annual management charges when the distributor is a bank or 55% when the distributor is an insurance company, through retrocessions[8].

Equity funds

Most equity funds mention maximum management fees, calculated in proportion to managed assets. A majority (77%) may charge subscription fees, while only a minority (31%) may charge redemption fees. Where they exist, subscription fees are much higher (3.99%) than redemption fees (1.79%), on average.

When fees charged by funds are weighted by the assets under management of the funds, the average fees tend to decrease, with investors thus benefitting at least partially from economies of scale.

[7] To begin with, we chose all funds that were active in 2002. A comparison with funds active in 2012 can be found afterwards.

[8] Strategic Insight, "Fund fees in Europe: analyzing investment management fees, distribution fees, and operating expenses", 2011.

Finally, passive funds charge maximum management fees that are lower (1.05%) by about one third to those of active funds (1.56%). However, there are wide discrepancies among each category.

As far as passive funds are concerned, one should distinguish tradable ETFs and other index-tracking funds. The average fee of passive funds is pulled down by ETFs. Other index funds charge higher fees.

Investors subscribing to ETFs bear two additional costs that are not taken into account in our calculations:

- Brokerage fees paid to buy and sell the product on-exchange.
- Liquidity costs reflected by the bid-ask spread on the order book of the exchange. Market makers of ETFs can also fail to execute orders at a price close to the net asset value of the portfolio and this is a potential extra-cost, which materialised, for example, in June 2013.

However, ETFs are less costly than actively managed funds, even when these additional costs are taken into account.

The lower costs of index funds are not a European specificity. For instance, US diversified equity index funds and ETF funds have asset weighted average total expense ratios of 0.176 % and 0.195% respectively, versus actively managed US institutional funds with ratios of 0.757% on average. Non-management fees, such as transfer agents and custodians, represent a higher share of total costs in passive funds than in active ones.[9]

Table 41. Maximum fees charged by equity funds domiciled in the EU (funds that were available in 2002)

		Management fees	*Subscription fees*	*Redemption fees*
Proportion of funds mentioning max. fees (if >0)	***Active funds***	96%	77%	31%
	Passive funds	99%	69%	39%
	All funds	96%	77%	32%
Average fees (if >0)	***Active funds***	1.56	4.01	1.82
	Passive funds	1.05	3.50	1.40
	All funds	1.53	3.99	1.79
Weighted average fees (if>0)	***All funds***	1.31	3.11	0.99

[9] 2013 Lipper's quick guide to OE fund expenses, June 2013.

Bond funds

The proportion of bond funds mentioning maximum management fees is about the same as for equity funds (96%) and balanced funds (95%). Subscription fees for bond funds are reported for 70% of the funds, about 7% lower than in the case of equity funds.

On average, subscription fees for bond funds are twice as high as their redemption fees but in general lower than for equity funds.

Table 42. Maximum fees charged by bond funds domiciled in the EU (funds that were available in 2002)				
		Management fees	***Subscription fees***	***Redemption fees***
Proportion of funds mentioning max. fees (if >0)	***Active funds***	96%	70%	29%
	Passive funds	99%	63%	43%
	All funds	96%	70%	29%
Average fees (if >0)	***Active funds***	0.97	3.26	1.61
	Passive funds	0.83	3.18	1.35
	All funds	0.97	3.26	1.60
Weighted average fees (if>0)	***All funds***	0.14	2.12	1.55

Balanced funds

Subscription fees are charged by 65% of EU balanced funds while redemption fees are charged by a quarter of these funds.

Average fees are higher than those of EU bond funds and almost reach the level of EU equity funds.

Table 43. Maximum fees charged by balanced funds domiciled in the EU (funds that were available in 2002)				
		Management fees	***Subscription fees***	***Redemption fees***
Proportion of funds mentioning max. fees (if >0)	***All funds***	95%	65%	25%
Average fees (if >0)	***All funds***	1.40	3.89	1.81
Weighted average fees (if>0)	***All funds***	0.92	1.86	1.89

Money market funds

Subscription fees and redemption fees are much less common than for the other categories of funds. About 39% of the funds charge subscription fees while redemption fees are reported for only 16%.

Average management fees (0.67%) and subscription fees (2.64%) are the lowest of all categories of funds whereas redemption fees are about 0.15% higher than for EU bond funds.

Table 44. Maximum fees charged by money market funds domiciled in the EU (funds that were available in 2002)				
		Management fees	***Subscription fees***	***Redemption fees***
Proportion of funds mentioning max. fees (if >0)	***All funds***	92%	39%	16%
Average fees (if >0)	***All funds***	0.67	2.64	1.75
Weighted average fees (if>0)	***All funds***	0.19	1.31	1.32

Development of EU equity fund fees over time

Over time, management fees for EU equity funds tended to decrease. Especially EU passive funds charged considerably lower maximum management fees in recent years, at 0.61% in 2012 compared to 1.05% in 2002. Indeed, maximum management fees for passive funds decreased in all countries but Finland and Sweden.

On the contrary, subscription and redemption fees for EU equity funds increased over time.

Table 45. Historical average maximum fees charged by EU equity funds							
		Funds available in 2002			*Funds available in 2012*		
Domicile		***Management fees***	***Subscription fees***	***Redemption fees***	***Management fees***	***Subscription fees***	***Redemption fees***
European Union	*Active*	1.56	4.01	1.82	1.48	4.27	1.88
	Passive	1.05	3.50	1.40	0.61	3.67	2.62
	All funds	1.53	3.99	1.79	1.42	4.23	1.98
Belgium	*Active*	1.25	3.06	4.15	1.30	3.38	4.83
	Passive	0.62	2.74	3.84	0.47	3.18	4.90
	All funds	1.15	3.01	4.09	1.21	3.35	4.85
Denmark	*Active*	1.69	2.03	0.71	1.72	1.82	0.56
	Passive	1.42	1.90	0.55	0.93	1.33	0.49
	All funds	1.67	2.01	0.69	1.64	1.77	0.56
Finland	*Active*	1.50	1.14	1.00	1.80	1.30	1.13
	Passive	0.46	0.64	0.49	0.61	0.48	0.64
	All funds	1.43	1.12	0.97	1.61	1.22	1.06
France	*Active*	1.73	3.02	1.40	1.62	3.22	1.82
	Passive	1.04	2.78	1.08	0.58	3.65	3.58
	All funds	1.65	2.99	1.33	1.42	3.29	2.65
Germany	*Active*	1.53	4.32	N/A	1.52	4.89	3.43
	Passive	N/A	N/A	N/A	0.48	2.30	1.12
	All funds	1.53	4.32	N/A	1.32	4.36	1.39
Greece	*Active*	2.65	4.12	1.87	2.44	3.83	1.49
	Passive	N/S	N/S	N/S	N/S	N/S	N/S
	All funds	2.62	4.14	1.84	2.46	3.83	1.49
Italy	*Active*	1.95	3.48	3.98	1.85	2.94	3.41
	Passive	N/S	N/S	N/S	N/S	N/S	N/S
	All funds	1.94	3.42	3.98	1.85	2.94	3.41
Netherlands	*Active*	1.19	1.50	0.72	1.21	0.53	0.37
	Passive	N/S	N/S	N/S	0.47	0.39	0.39
	All funds	1.19	1.50	0.73	1.17	0.52	0.37
Poland	*Active*	3.43	4.28	2.88	3.42	3.94	3.15
	Passive	N/A	N/A	N/A	N/S	N/S	N/S
	All funds	3.43	4.28	2.88	3.40	3.94	3.21
Portugal	*Active*	1.78	0.61	1.93	1.67	1.67	2.26
	Passive	N/S	N/S	N/S	N/S	N/S	N/S
	All funds	1.77	0.61	1.91	1.64	1.55	2.20
Romania	*Active*	0.77	1.00	3.50	0.85	2.63	3.17
	Passive	N/A	N/A	N/A	N/S	N/S	N/S
	All funds	0.77	1.00	3.50	0.77	2.30	3.10
Spain	*Active*	1.96	1.05	2.12	1.94	3.00	2.32
	Passive	1.45	0.89	2.33	1.09	0.60	2.29
	All funds	1.91	0.96	2.13	1.83	2.20	2.31
Sweden	*Active*	1.54	3.13	1.05	1.49	3.64	1.11
	Passive	0.71	1.64	1.02	0.81	2.89	1.79
	All funds	1.45	2.61	1.05	1.37	3.44	1.25
United Kingdom	*Active*	1.44	4.95	3.86	1.18	4.43	3.01
	Passive	0.97	5.24	4.00	0.50	4.80	4.00
	All funds	1.42	4.95	3.87	1.14	4.43	3.03

3. Charges and performance correlation

In recent research conducted by Vanguard[10], UK funds were split into lower and higher cost segments and it was found that low-cost funds are more likely to outperform higher-cost funds in 9 out of 11 investment categories, as defined by the Morningstar classification. European equity and GBP government bond indexes were the only investment categories where median performance was better for higher cost funds than for low-cost ones.

Turning to all European-based equity funds with a pan-European focus of investment, we computed the coefficient of correlation between the annual performances of mutual funds with the maximum fees charged to investors. This correlation is null for every type of charge (subscription fees, management fees and redemption fees).

Table 46.Equity Funds with a pan-European focus of investment: Correlation coefficient between average annual performance of the funds from 2003-2012 and their maximum fees	
Subscription fees	-0.01
Management fees	0.00
Redemption fees	-0.02

Higher fees cannot be explained by more added value for investors. On the other hand, high management fees are subtracted from the net asset value of funds, hence their heavier weight is offset by better investment returns before charges. In other words, active portfolio management seems to add value with better performances before charges, but this advantage is off-set by the level of management fees.

This hypothesis is confirmed David Blake and al (2014)[11] in a recent study using a dataset on domestic equity mutual funds in the United Kingdom from January 1998 to September 2008. The authors found that active portfolio managers do not deliver outperformance from their skills in stock selection and market timing. There is a minority of portfolio managers able to generate higher performances but they charge higher fees, so investors do not get higher benefits from them than from other portfolio managers.

A conclusion from this finding could be to recommend investors to buy index-tracking funds rather than actively managed funds. In theory, private investors could benefit from the low costs of ETFs, but in practice ETFs are mainly sold to institutional investors in Europe, contrary to the United States.

Financial research delivers value to clients and also to the whole market as it contributes to the price discovery process. If all investors were to leave active portfolio managers for passive funds, the price discovery function of markets would vanish, but there is a long way to go before this happens; index

[10] Vanguard, "Vanguard research shows low-cost funds are more likely to outperform higher-cost funds", 2014.
[11] David Blake, Tristan Caulfield, Christos Ionnidis, Ian Tonks, "New Evidence on Mutual Fund Performance: A Comparison of Alternative Bootstrap Methods", June 2014

funds do not even account for more than 2% of total EU fund assets under management. Two thirds of ETFs are equity funds, one sixth are bond funds. Banking networks do not actively sell those products to private clients because the low level of fees is not a sufficient incentive to dedicate resources.

Performance fees

As explained above, ex-ante high fees do not result in better performances on average. However, one could anticipate that higher fees depending on the actual outcome of portfolio management might be an incentive for firms to dedicate more resources and select more skilled managers for the benefit of their clients.

Lipper provides insight into the correlation between performance fees paid to asset managers and performances of open-ended funds in the United Kingdom.[12] The study shows that the use of performance fees in the United Kingdom has declined in recent years as a consequence of intermediaries' scepticism. Within the absolute returns sector, funds with performance fees do not show returns significantly higher than funds without such performance fees, and their higher risks tend to translate into higher volatility.

Converging surveys run by IPE show that no more than 6% of institutional investors pay performance fees to their external equity asset managers.[13]

[12] "Performance fees: Paying your dues?" (Fund industry/Insight report), September 2012.
[13] Source: IPE European Institutional Asset Management Survey, 2011.

4. Resource/asset allocation

Research has shown that dynamic asset allocation, simply based on P/E ratios provides higher returns than a buy-and-hold strategy; as the level of risk decreases, the share of equity in the portfolio can be increased with higher returns than with interest rate products.[14] However, the costs of switching frequently the composition of the portfolio (explicit transactions costs and implicit cost due to the bid-ask spread) can make it difficult to outperform a buy-and-hold strategy.

There has been some attempt to measure the market-timing performance of investment managers. Findings are mixed. Stanley J. Kon (1984) found a sample of US funds demonstrating a specific ability in market-timing.[15] More recently, Laurens Swinkels and Liam Tjong-A-Tjoe (2007)[16] found evidence that a sample of US mutual funds was able to predict the direction of the valuation and momentum style of returns, though not their magnitude. But they were not able to rotate successfully between stocks with small and large market capitalisation. A study by Edwin J. Elton, Martin J. Gruber and Christopher R. Blake (2011) includes a full range of securities, not just traded equities.[17] The authors show that sector rotation decisions with respect to high-tech stocks are a major contribution to negative timing. However, there have been few academic articles published on this issue using European data.

The assessment of the value added by asset managers raises several problems:

- Asset allocation is often done by investors rather than asset managers. For example, asset management companies launch funds specialised in an industry or an investment theme when there is a general appetite for such industries or themes rather than reallocating the invested assets of a general fund. Similarly, most mandates given to portfolio managers by institutional investors are specialised ("European equity", "government bonds" etc.).

- There are balanced funds, but many of them are benchmarked against a fixed combination of specific indices (equity, bonds, real estate etc.), hence such products do not enable portfolio managers to generate revenue from their skills in market timing.

Our own calculations show that "flexible funds" with asset allocation freely decided by the portfolio manager tend to deliver lower returns than classical and more restrictive balanced funds. Some balanced funds have a fixed strategic asset allocation between bonds and shares. For some other funds, asset allocation may vary according to market conditions. In these latter "flexible" funds, the

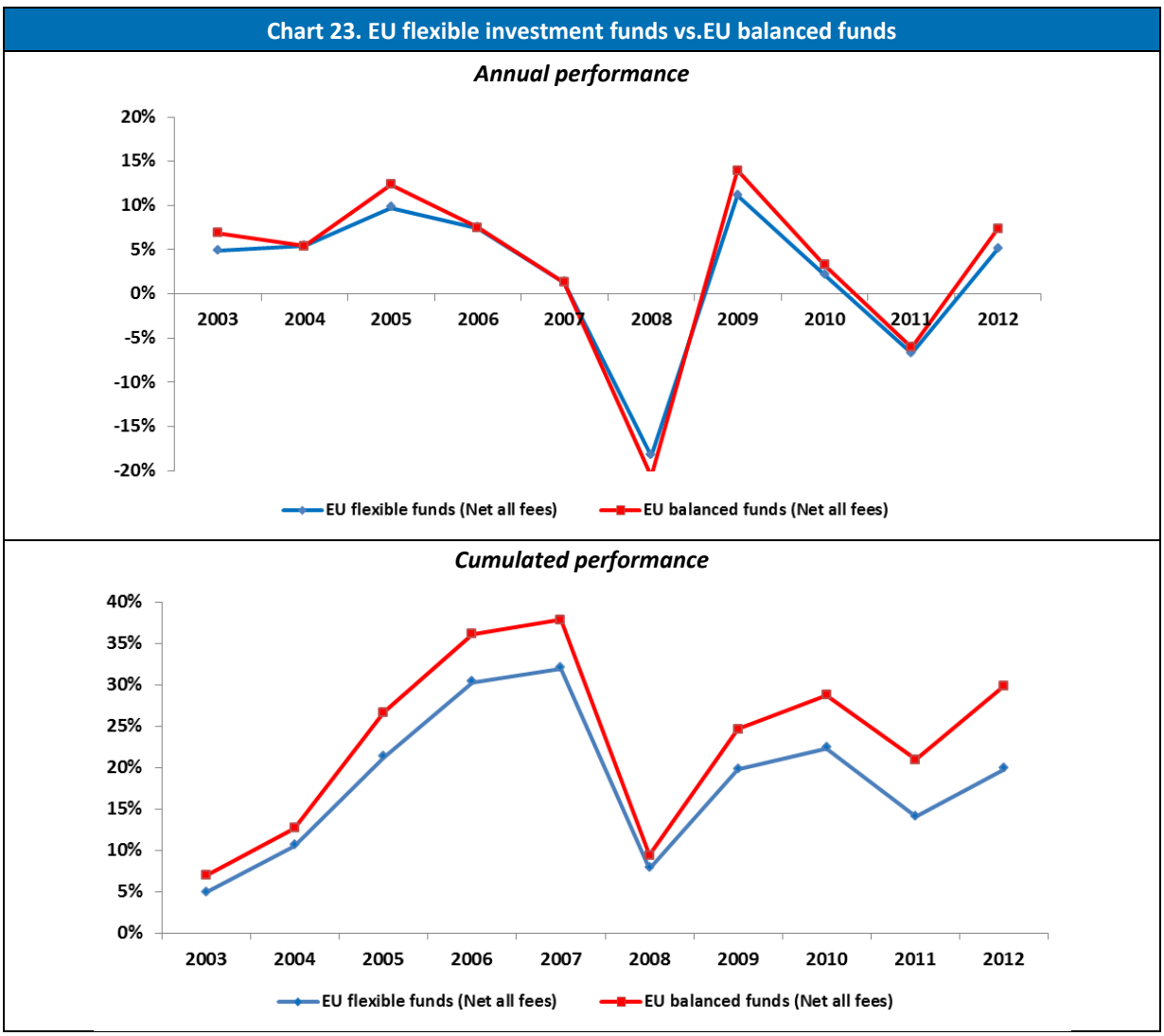
[14] Eric Jondeau and Michael Rockinger, "Portfolio Allocation for European Markets with Predictability and Parameter Uncertainty", OEE, August 2009.
[15] Stanley J. Kon, "The Market Timing Performance of Mutual Fund Managers", in: Journal of Finance, Vol. 39, No. 1, 1984.
[16] Laurens Swinkels and Liam Tjong-A-Tjoe "Can Mutual Funds Time Investment Styles?", in: Journal of Asset Management, Vol. 8, No. 2, pp. 123-132, 2007.
[17] Edwin J. Elton, Martin J. Gruber, Christopher R. Blake, "An Examination of Mutual Fund Timing Using Monthly Holdings Data", in: Review Of Finance (2011) 0: 1–27.

added value of portfolio management includes the relevance of market timing. It is interesting to compare the performance of such flexible funds with the overall performance of balanced funds.

A look at the average performance shows that only during the crisis of 2008, flexible funds were able to slightly outperform balanced funds by about 2%.

Table 47. Performance of EU flexible funds vs. EU balanced funds (2003-2012)		
		After deduction of maximum subscription and redemption fees
Flexible funds	**Nominal performance: 10 years**	19.8%
	Nominal average annual performance	1.8%
Balanced funds	**Nominal performance: 10 years**	29.8%
	Nominal average annual performance	2.6%

Chart 23. EU flexible investment funds vs.EU balanced funds



5. Disclosure and transparency

There are two important issues that may have an impact on the efficiency of the EU asset management industry: disclosure of charges, as well as conflicts of interest resulting from the conditions of remuneration of portfolio managers and distributors.

Disclosure of charges

Critical information relative to UCITS should be disclosed in the Key Investor Information Document (KIID) foreseen in the UCITS IV Directive (Directive 2009/65/EC). KIID should be made available to any investor before they subscribe. The KIID is a summary and harmonised document providing investors with vital information about:

- Objectives and investment policy;
- Synthetic risk and reward profile;
- Charges;
- Past performances;
- Practical information.

In April 2014, the European Parliament and the European Council backed a European Commission's proposal on a similar mandatory "Key Information Document" that will cover all products sold to retail customers through banking channels, financial advisors or via the internet. Structured products issued by banks, insurance-based products, investment funds and some private pension products will be covered, allowing for a comparison between the products, whatever their "wrap".

Concerning charges, the KIID should include:

- The maximum entry and exit charges;
- Ongoing charges in the preceding year as a percentage of the Net Asset Value (NAV);
- Performance fee in the last year as a percentage of the NAV and the method of calculation of such fee;
- Portfolio transaction costs when they are material.

Pre-contractual information foreseen in the directive may raise issues relative to its contents and its practical implementation.

The content of information

The method used to calculate transaction costs is not precisely defined in the directive, although some professional bodies have set standards. For example, in the UK, the Investment Management Association (IMA) published guidelines for "enhanced disclosure of fund charges and costs" in September 2012. In May 2014, IMA published a "Statement of recommended Practice" for financial statements of UK authorised funds, which included a summary of the statement of total returns of

any fund in the annual report. Each type of expense should be disclosed in the notes of the annual report, with the details of expenses payable to each fund manager, to the depository and any other third parties. The Financial Conduct Authority (FCA) will require funds to publish annual information in accordance with these standards for the accounting period commencing after the end of 2014 at the latest.

Practical implementation

It is important to ensure that clients actually receive the information foreseen in the directive:

- Clients should actually be provided with the KIID before the subscription to avoid any practice that would consist in "regularising" the selling process by providing the document ex-post. In a similar context, evidence has been found that only half of the clients received the "European Consumer Credit Information" (SECCI) foreseen in the directive 2008/48/EC on credit agreements for consumers.[18]
- Some advertisements or commercial documents may diverge from the KIID. For example, in France, the financial markets authority (AMF) mentioned that it had to intervene to impose consistency between legal and commercial information.[19]

Conflicts of interest

One of the main issues comes from fees paid by portfolio management companies to distributors: Such fees raise an issue of conflict of interest as the distributor may have incentives to sell products that do not suit the interests of final clients.

Article 23 of MIFID II foresees that Member States should "*require investment firms to take all appropriate steps to identify and to prevent or manage conflicts of interest…including those caused by the receipt of inducements from third parties".* Article 24 establishes limitations to the payment of commissions that the distributor can receive from third parties:

- If the distributor is a portfolio manager (either the manager of a fund or in the framework of a mandate) or pretends to be an independent advisor, fees, commissions or any other monetary benefits will be banned or will have to be passed on to the final investor[20].
- Other distributors will be allowed to receive inducements only if those are designed to enhance the quality of services and do not impair the firm's duty to act "honestly, fairly and professionally" and if such inducements are disclosed to the final investor.

This provision was inspired by the new legislation applied in the United Kingdom, following the Retail

[18] Source: Report from the Commission to the European Parliament and the Council on the implementation of Directive 2008/48/EC on credit agreements for consumers, COM(2014) 259, May 2014

[19] Annual report (2013) of the Autorité des Marchés Financiers, page 48 of the French version, 2013.

[20] However, minor non-monetary benefits will be allowed if they are disclosed to the investor.

Distribution Review, that lead to a fall by 13% of fees charged to retail investors in 2013.[21] Similarly, in the Netherland, the "Provisierbod"" implies that Dutch banks may no longer receive commissions from asset managers to distribute their funds since January 2014. According to the results of a case study of the Dutch investors association VEB, this has led to a general lowering of management fees, although some banks have compensated by higher tariffs for keeping the account or higher service fees.

Independent advisors play a major role in the distribution of financial products in the United Kingdom. In a number of other countries, financial advisors play a rather minor role when compared to universal banks. The impact of the new regulation remains to be studied in those countries. Three cases have to be considered:

- Smaller independent financial advisors may be unable to change their business model from remuneration by commissions received from portfolio managers and many of them are, therefore, at risk of disappearing. For example, two thirds of the French financial advisors' work is compensated by commissions rather than by fees[22] and the industry fears that clients will be reluctant to pay explicit commissions for the advice received. They argue that only the richest clients will be able to benefit from their services.

- Bank retail networks in the mass market will have no incentive to promote products managed by portfolio management companies not belonging to the same group. Indeed, an account manager would become an "independent advisor" as soon as they proposed products differing from the standard offer of the bank. Hence, the bank would not receive any remuneration for this sale and the account manager is unlikely to receive any personal incentive for such sale.

- Private banks will still be able to compensate the shortfall of inducements by raising the commission charged to wealthy individuals for managing their assets, although the pressure of competition necessarily limits their ability to do so.

In total, some market participants fear that the "open architecture" model, where a distributor sells products managed by entities outside the group, will be less favoured, at least for the small clients. A return toward vertical silos would mean less competition, and, possibly, higher prices.

A second area of potential conflict of interest concerns the relation between asset managers and brokers.

Dealing commissions charged by brokers may be passed on to investors instead of asset management companies. It is a commonly used practice that the cost of research is included in trading fees charged by brokers, and asset managers allocate the overall cost to investors either directly or through the NAV of investment funds. Although financial research is mainly a fixed cost,

[21] Source: McKinsey research cited in the Financial Times; 22 June 2014: "Asset manager profit overtake pre-crisis peak".
[22] Source: Morningstar, "The IFA Landscape in Europe", Supplement to Morningstar magazine, June 2014.

unbundling practices mean that the charge for research may be excessive as it depends on trading volumes.

The practice of “corporate access” by which a bank or a broker charges his client for organising meetings with CEOs or CFOs of listed companies can also lead to abusive practices when asset managers allocate this cost to investors. These practices raise issues of transparency; they distort competition and generate conflicts of interest. Since asset managers do not pay with their own funds for such services they are not incited to control their cost, at the expense of investors.

6. Consumer confidence

In general, the financial industry has been subject to mistrust since 2007. The "Consumer Scoreboards" published annually by the DG SANCO of the European Commission show that "Banking services", defined as including loans, credit and credit cards, mortgages and investment products, are the worst performing cluster of industries, even though each of its components have improved their rating every year since 2010.[23] The main problems declared by surveyed consumers are issues of transparency and compliance with consumer regulation.

It is more difficult to assess the confidence of clients in asset management firms specifically.

The CFA Institute & Edelman Investor Trust Study (2013) finds that no more than 53% of investors trust the asset management industry in the US, UK, Hong Kong, Canada and Australia. The study examines trust by investors in investment managers, and explores what dimensions influence that level of trust. The study is based upon an international survey, but the UK is the only European country included in the study.

In other countries, there are some surveys on the confidence placed by the population in banks, but we have not been able to find any survey on the confidence of the population towards asset management companies. A reason for this lack of available data may come from the fact that in many countries with a financial system dominated by large universal banks, savers are rarely directly in contact with the portfolio management companies in charge of their assets.

However, one of the 52 consumer markets (21 goods and 31 services) covered by the "Consumer Scoreboards" of the European Commission, is the "Market for investment products, private pensions and securities" (called "Market for investment products" later in the present report). This market segment covers banking investments, private pensions and securities, packaged investments, portfolio and fund management, private personal pensions, stock broking and derivatives. It is broader than the asset management market but its monitoring provides a good indication of the level of satisfaction and confidence of consumers towards the investment professionals.

The Market Performance Indicator (MPI) of the "Consumer Scoreboard" is a composite index derived from surveys run in each EU country. It includes four components:

- The ease of comparing goods or services on offer (comparability);
- Consumer trust in suppliers to comply with consumer protection rules (trust);
- Problems experienced and complaints;
- The extent to which markets live up to what consumers expect (satisfaction).

Each component is equally weighted and the final score is on a scale from 0 to 100.

[23] Commission staff working document SWD (2014) 212, « Consumer Market Scoreboard – Making markets work for consumers, 10th edition », June 2014. Data available on the EC website: http://ec.europa.eu/consumers/consumer_evidence/consumer_scoreboards/10_edition/index_en.htm

The MPI of the Market for investment products was 69.9 in 2013. It was the lowest score among all 52 markets at an EU level, as in 2011 and 2012. The only positive finding is that the score has improved every year since 2010 (+3 in 2011, +0.7 in 2012 and +1.1 in 2013).

It should be particularly noted that 22% of European consumers rate the market below 5 on a scale of 0 to 10 on the "comparability" and "trust" criteria.

Table 48: Performance indicators of the Market for investment products

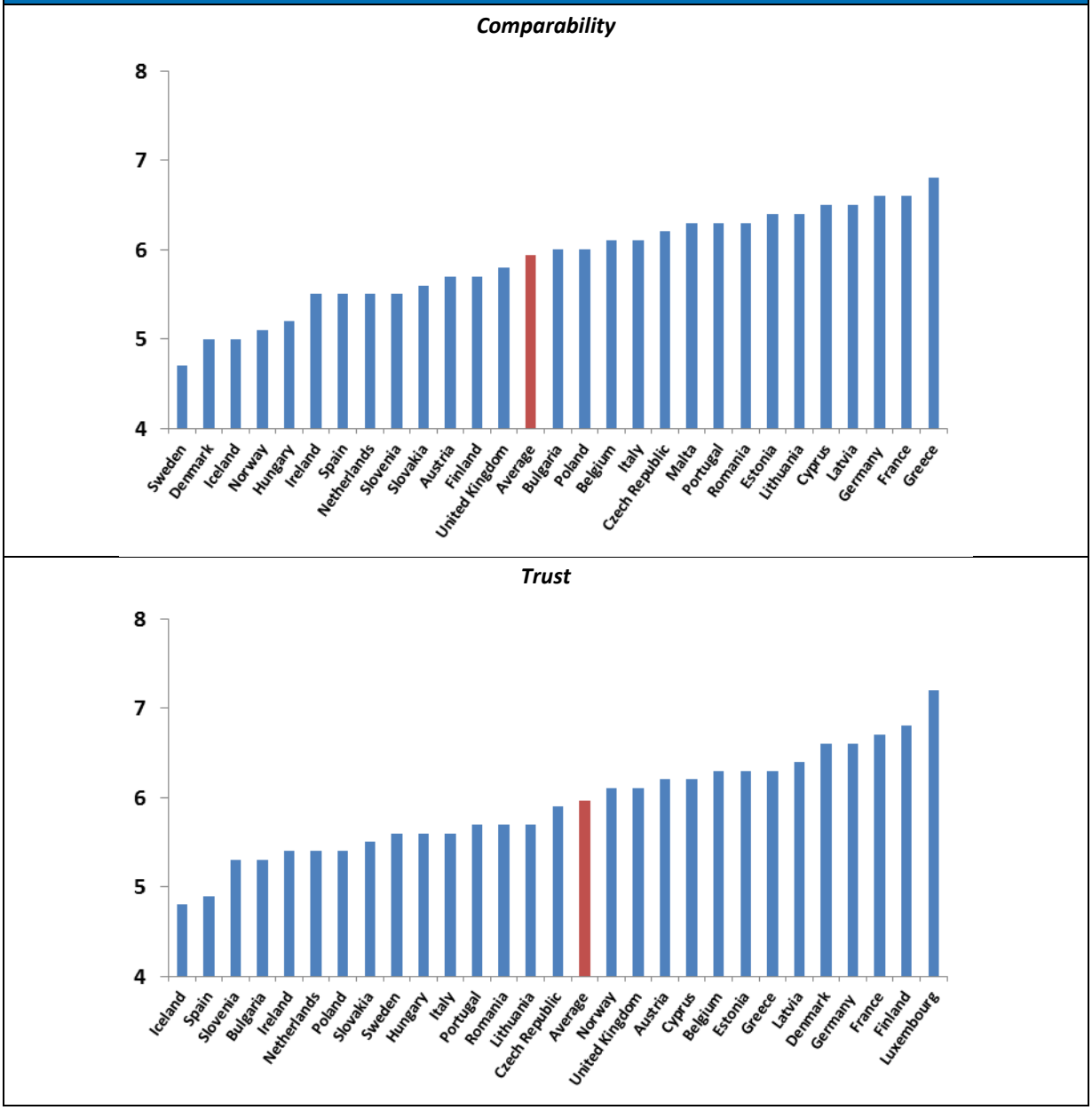
	Comparability	Trust	Expectations
Question	*On a scale from 0 to 10, how difficult or easy was it to compare the products and services sold by different suppliers?*	*On a scale from 0 to 10, to what extent do you trust suppliers to respect the rules and regulations protecting consumers?*	*On a scale from 0 to 10, to what extent did the products/services on offer from different suppliers live up to what you wanted within the past period?*
8-10	35%	35%	39%
5-7	43%	43%	47%
0-4	22%	22%	15%
Average rating	6.1	6.1	6.5

Source: European Commission, Consumer Markets Scoreboard.

The assessment of comparability of products and services is the most positive in Greece, France and Germany, and the least positive in Sweden, Denmark and Iceland.

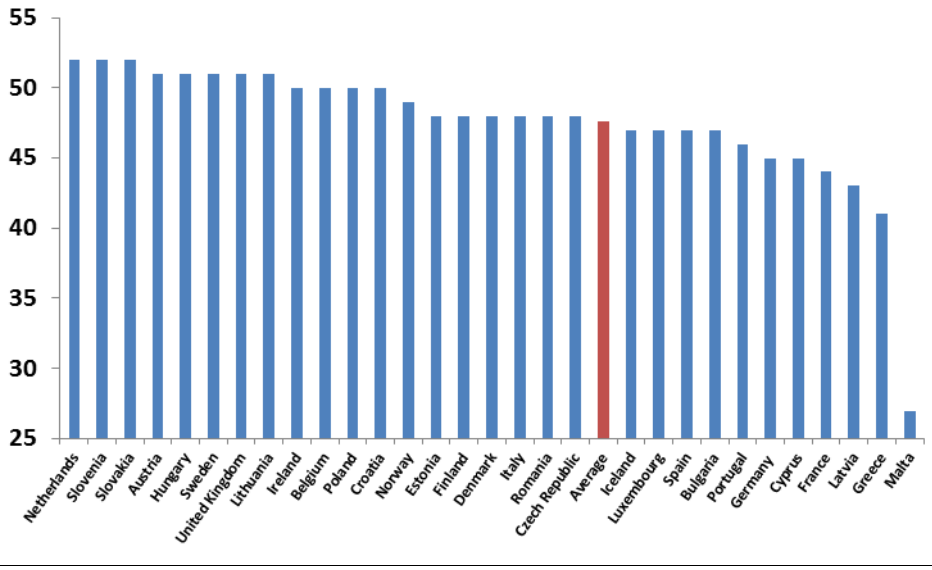
The trust that suppliers comply with rules and regulations protecting consumers is the highest in Luxembourg, Finland and France, and the lowest in Iceland, Spain and Slovenia.

Chart 24. Performance of the Market for investment products, private pensions and securities (2013)



Since answers to a satisfaction survey may be influenced by national cultural and economic differences between countries, it is interesting to compare the ranking of the Market for investment products among the 52 markets covered by the survey in each country. In 8 countries, the investment products market is ranked in last position among all product and service markets. In all countries except Malta, it is ranked beyond the 40th position.

Chart 25. Ranking of the Market for investment products, private pensions and securities among 52 markets covered by the survey



7. Market structures

The degree of concentration of the industry and the way it provides its services (active or passive management) have an impact in its efficiency.

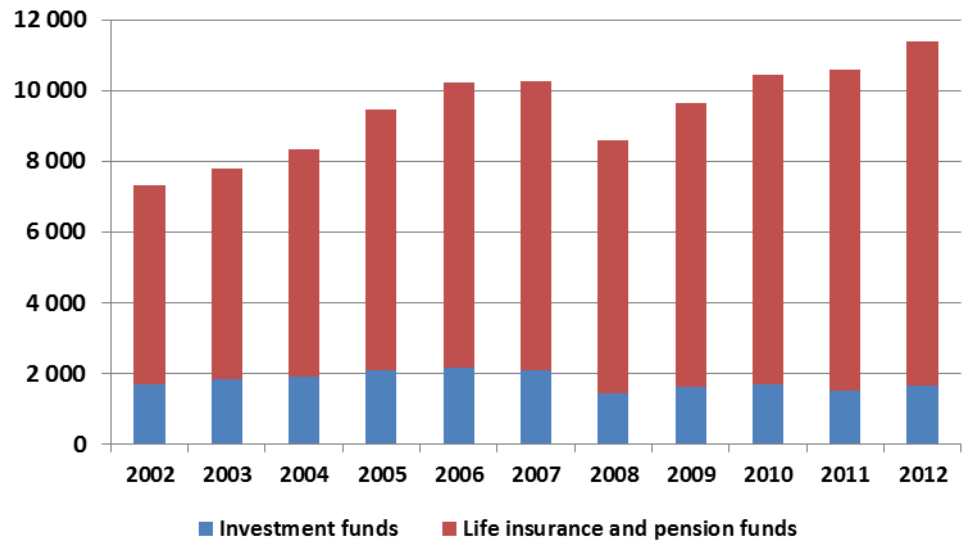
Size and concentration issues

According to EFAMA, the total amount of professionally managed assets represented € 15.4 trillion at the end of 2012, divided approximately equally between mandates and funds. Institutional investors accounted for 75% of managed assets. The share of direct retail clients tends to decrease. On the one hand, individual clients invest more and more in intermediated products managed by insurance companies and pension funds, while on the other, institutional investors increasingly outsource their portfolio management to external asset managers.

As mentioned in section II, these figures reflect the size of the European industry and not of assets managed on the account of European investors. Moreover, there might be some double counting as investment funds can be held in the framework of mandates.

Looking at European households, the amount of professionally managed assets has represented about €10 000 bn since 2006, 15% of which are investment funds and 85% pension funds or life insurance contracts.

Chart 26. Professionally managed assets of European households (EU 25; in bn €)



Source: Eurostat, Annual national accounts

According to McKinsey,[24] operating profits of the asset management industry in Western Europe jumped by 24% in 2013, at almost €12.1 bn. However, operating profits were still below their 2007 peak. Retail investors pushed profits higher thanks to €130 bn investment flows into mutual funds.

Many small entrepreneurial portfolio management companies were created in the last decade. This trend stimulates competition and innovation. Fragmentation of the industry also pushes prices up; industry sources indicate that portfolio management companies can hardly break even with less than €100 m of managed assets and the European market for investment funds has become increasingly integrated. The relative weight of funds domiciled in a European country other than the domestic country of investors increased dramatically over the last 20 years.

Costs of investment funds could be reduced in the future by economies of scales resulting from an industrial concentration and/or a reduction of the number of products. There are 3 200 asset management companies, employing directly 90 000 people and indirectly 500 000 and managing almost 35 000 products.

Asset management is a fixed cost industry, so it is in the interest of clients to merge the smallest funds and asset management companies.[25] On the other hand, entrepreneurial asset management companies can bring innovation or contestability to the asset management market, which is also in the interest of final clients.

In reality, the correlation between the size of funds and their performance is not clearly established. Lipper shows that, at some point, large funds tend to add complexity and experience diseconomies of scale. Moreover, half of fees are transferred by asset managers to the distributors.[26]

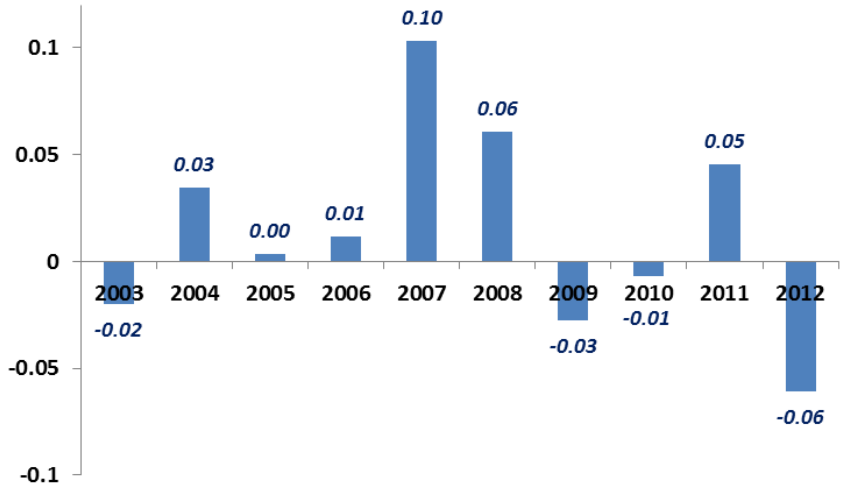
We computed the correlation between the size and the performance of equity funds with a similar focus of investment, namely pan-European funds. We found that the coefficient of correlation is not stable and always low. It reached a maximum of 0.1 in 2007 and a minimum of -0.06 in 2012.

[24] Quoted by ft.com, “Asset manager profits overtake pre-crisis peak”, 22 June 2014.

[25] For this reason, the UCITS IV directive introduced a framework for amalgamating assets, be it through the cross-border merger of UCITS irrespective of their legal form, or by allowing master-feeder structures. However the lack of harmonisation of taxation related to cross-border mergers prevented market participants from multiplying such operations.

[26] EFAMA (2011), “Fund Fees in Europe: Analysing investment management fees, distribution fees and operating expenses”.

Chart 27. Equity funds with "Europe" as focus of investment: Coefficient of correlation between total net assets and performance



It has been argued that the better performance of passive funds over active funds might result from differences in the size of funds. However, we computed the median value of Total Net Assets of equity funds available in 2002 and based in Europe as recorded in the Lipper FMI database and we found that passive funds were smaller than active funds in 2012.

Table 49. Median of total net assets of European equity funds (in million €)

	Active funds	*Passive funds*	*Passive funds/active funds*
2012	122	100	0.82

Management styles and skills

As shown in section II, active portfolio management does not deliver higher performances, which would explain why investors are ready to pay higher fees.

In fact, most actively managed funds tightly follow indices. The reason is that the expected loss of investors' flows in case of large underperformance of the portfolio against benchmarks is greater than the expected new flow from investors in case of outperformance.

In theory, there is a clear distinction between active and passive portfolio management. Passive management is supposed to mimic an index calculated according to a mathematical formula, without any degree of freedom to select the securities in the portfolio and to determine their relative weightings. It is supposed to catch the overall performance of the market (the "beta", i.e. the sensitivity of a portfolio to the market).

An active manager is supposed to add performance to the “beta” component by “stock-picking” some securities selected according to a fundamental analysis of the companies and their business perspectives (the “alpha” component of returns).

Since the research on companies is costly, the fees charged on active funds are usually higher than those charged on passive funds but this extra cost is supposed to be offset by higher returns, an assumption which is far from always being proven as shown in Section II.

However, recent trends in asset management techniques blur the frontier between active and passive management. Indices replicated by a majority of passive funds are built to represent the market as a whole and each security is weighted proportionally to its market capitalisation. This rule of calculation is theoretically justified by the CAPM model. But a stream of research has shown that this entails an over-exposure to the largest capitalisations and excessive volatility. An index with equally weighted components (like the Dow Jones Industrial Average) might provide a better risk/return ratio. From this perspective, portfolio managers have built “minimum volatility” indices and portfolio.

Other research has shown that some systematic bias can be exploited to catch additional returns, for example:

- Selecting “Value” stocks with a low Price Earning Ratio, an approach also named “fundamental”. The RAFI indices are an example of such an approach.
- Selecting small capitalisations.

The competition between portfolio managers has thus been displaced towards building more efficient algorithms than traditional indices. These algorithms have been promoted as “smart beta”. Portfolio managers actively build more and more complex models to be used passively; the portfolio mimics a mathematical formula, but this formula is far from traditional capitalisation-weighted indices. The active management consists in defining the algorithm and in regularly rebalancing the portfolio according to the formula.

In practice, many “smart beta” strategies have a weakness; they necessitate frequent and costly re-balancing of the portfolio. The additional theoretical returns are offset by transaction costs that are not always clearly disclosed, especially in the case of pension funds. Some pension providers report management fees that do not include transaction fees. That the calculation of transaction costs is complex is all the more confusing for the final investor; they have an explicit component, i.e. broker fees, stock exchange and infrastructure fees, but also an implicit component more difficult to measure: the bid-ask spread available on the market, which is usually higher for small capitalisations than for large capitalisations. Portfolios composed according to a mathematical formula cannot be patient; they have to immediately follow the index to avoid any tracking error. They pay the price of liquidity imposed by more patient investors or by market makers.

In summary, recent trends in asset management styles might reduce the gap between active and passive asset management, but the benefits of this trend for investors are not clear.

IV. The model

Background and justification

Savers currently face a very difficult environment, with historically low interest rates and a succession of past financial crises that may take them away from the asset classes that provide the best returns in the long term. Since bank products deliver very low or negative real returns, it is crucial to precisely analyse and measure the added value of the asset management industry in order to assess its real contribution to the welfare of investors.

In theory, there are three motivations for an individual investor to invest in a mutual fund or to give a mandate to an external manager rather than to intervene directly on the markets:

- Specialised portfolio managers have a superior expertise in asset management than ordinary investors.
- Mutual funds allow for portfolio diversification, including markets difficult to access, such as many emerging markets.
- Pooling investment flows from numerous investors allows for economies of scale; fixed costs of asset management are shared between all funds holders.

However, there is a stream of literature which suggests that these benefits do not materialise in practice (see above sections on performances and charges).

Measuring and identifying the components of the welfare gain/loss of the asset management industry raises several difficult problems:

- For measuring the performance, it is often proposed to use a stock index as a benchmark but the method only applies to pure equity funds. Moreover, investment fund portfolios tend to be increasingly international and the reference to domestic benchmarks or even any specific international index can be considered as irrelevant. Finally, it is not possible to compare the performance of a portfolio without taking into account its level of risk. It is rather easy to over-perform the market with a high degree of risk exposure.

- Charges: it is difficult to get comparable comprehensive data in Europe. For instance, trading fees may be hidden, hence a comparison of charges would be biased as such charges are not taken into account separately in Europe. A survey showed that UK investors were supporting twice higher costs than those in the U.S. and got worse returns as a result of hidden fees according to certain market participants[27].

We measure the added value of asset management by measuring the overall outcome of asset management from the perspective of the financial users in each country.

[27] Kevin Crowley , "Hidden Fund Fees Mean U.K. Investors Pay Double US Rates", Bloomberg news, 23 March 2012.

IODS has built an index named “IODS Patrimonial” which measures the performance of financial assets held by individual investors. Indeed, there are many benchmarks enabling a comparison of the performance of asset management within a given asset class, but the final performance of a portfolio is ultimately driven not only by the ability of the managers in stock picking but also by good timing of asset allocation. National financial accounts take into account management fees because they have a negative impact on the valuation of funds.

We adapted the “IODS Patrimonial” index for this study; we only measured the performance of the following assets held by savers in each country:

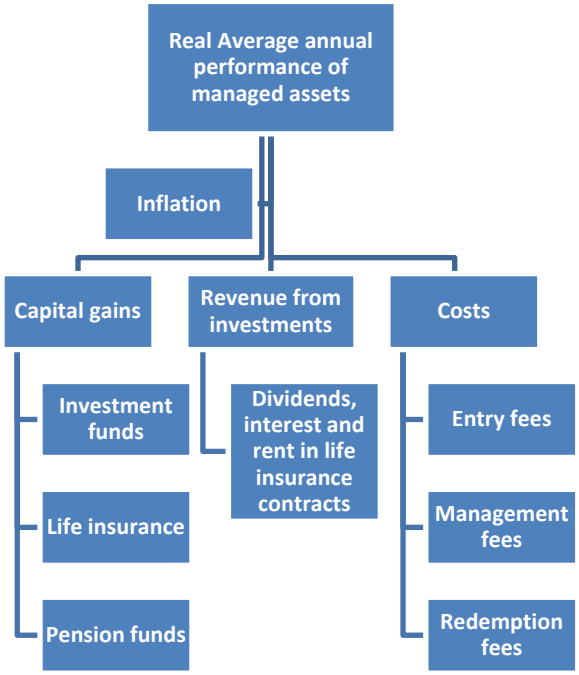
- Investment funds;
- Life insurance contracts;
- Pension funds.

We thus exclude securities directly held by savers (stocks, bonds and other debt instruments), although we recognise that the management of a certain proportion of these portfolios may be delegated to portfolio managers in the framework of mandates. But data on the performances of mandates to individuals are not available. We also exclude bank products (deposits, cash savings accounts etc.).

We thus capture the performance of most asset managers running a business for the account of external investors who either invest in investment funds directly or through life insurance and pension products. The assets of the latter can be managed either by internal asset managers within the institutions or outsourced to external managers in the framework of a mandate or collective investment vehicles.

The calculated indices cover all countries, however, the length of historical time series depends on the countries.

Chart 28. Methodology of the model



Real performance, inflation and nominal performance

Nominal performances are corrected from inflation. We use country Harmonised Indices of Consumer Prices (HICPs) designed for international comparisons of consumer price inflation. Data published by Eurostat go back to January 1996. As we need to start at the end of 1995, we assume that the inflation rates in January 1996 and February 1996 in each country were similar.

$$Real\ performance\ of\ asset\ management\ from\ data\ t_1\ to\ date\ t_2 = \frac{Nominal\ performance\ from\ date\ t_1\ to\ date\ t_2}{\frac{HICP_{t2}}{HICP_{t1}}}$$

With $nominal\ performance\ from\ date\ t_1\ to\ date\ t_2$

$$= Capital\ gains\ between\ t_1\ and\ t_2 + Investment\ revenue\ received\ from\ \ t_1\ and\ t_2 - Fees\ charged\ by\ financial\ intermediaires$$

Capital gains

Investors get unrealised capital gains or capital losses on their holdings of investment funds and their net equity in life insurance and pension fund reserves.

The revaluation account of national financial accounts records all changes in the value of assets. It is theoretically available for each category of products and each category of investors.

Here, we use capital gains recorded by households for their holdings of investment funds (transaction "F52" in ESA 95 classification), life insurance contracts ("F611") and pension funds ("F612").

However, in practice, not all countries published revaluation accounts for the whole period under review (end of 1995 to end of 2012).

For those countries with no revaluation accounts available, we estimate capital gains and losses as follows:

$$Capital\ gains\ between\ t_1\ and\ t_2$$

$$=$$

$$Increase\ of\ outstanding\ assets\ at\ market\ value\ between\ t\ and\ (t+1)$$
$$-\ net\ investment\ flows\ between\ t\ and\ (t+1) - "other\ changes"$$

Where:

$$Net\ investment\ flows = New\ investments - withdrawals$$

And:

$$"Other\ changes" = "Changes\ in\ volume" + "Changes\ in\ classifications\ and\ structure"$$

Changes in volumes are primarily due to changes in liabilities of defined benefit pension funds related to the actuarial formula, or the pensionable age of defined benefit pension funds.

Changes in classifications and structure consist in changes of an economic agent from one institutional sector to another.

Investment revenues

Investment revenues consist of received interest, dividends and rent.

Interest, dividends and rent correspond to the remuneration of bank deposits, bonds and shares directly held by households and real non-intermediated real estate assets, which are not in the scope of our model.

The only investment revenues that have been taken into account are revenues capitalised in life insurance assets. This data is estimated as follows.

An item is available in national financial accounts under the name: “Property income attributed to insurance policy holders – D44”. This item corresponds to total income received by households from the investment of insurance technical reserves. Technical reserves correspond to two different liabilities of insurance companies:

- Net equity of households in life insurance reserves and pension fund reserves (“F61”).
- Prepayment of insurance premiums and reserves for outstanding claims, mainly relating to non-life insurance (“F62”).

In order to estimate the revenue of investment in life insurance, we calculate the share of “Property income attributed to policy holders” proportionally to the share of “F61” in the sum of “F61” and “F62”.

Fees charged by intermediaries

There are three main types of fees charged by asset managers:

- Entry or subscription fees are charged once at the time of investment.
- Management, administration and other operational fees are charged every year. In general, they are proportional to the assets under management.
- Redemption fees are charged when the investor withdraws their funds.

Management, administration and other operational fees are directly deducted from the value of investment fund shares and from life insurance and pension assets. Hence, we do not have to take them into account as they are deducted from the available data on outstanding assets of households.

Not all savings products are subject to entry and redemption costs. We estimate average entry and redemption fees from various sources:

- We used the data from Lipper FMI for investment funds.
- We use national data for life insurance and pension funds; a lump percentage of 0.5% is applied.

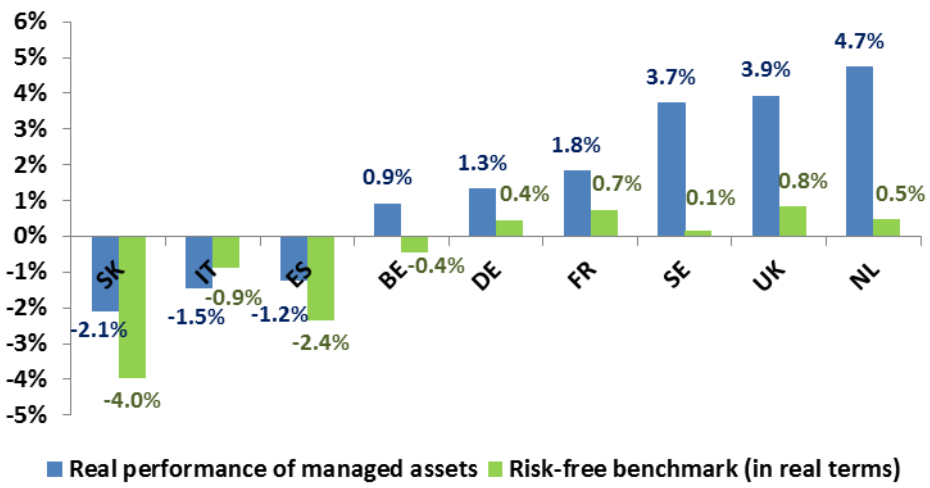
Table 11 shows the availability of data on capital gains, either directly or using the estimation method described above.

Table 50. Availability of revaluation accounts in the Eurostat database (1996-2012)		
	Investment funds	***Life insurance and pension funds***
Belgium	Estimation	Estimation
Denmark	Available since 2003	Available
Germany	Estimation	Estimation
Ireland	No data	Estimation since 2002
Spain	Available	Available
France	Available	Available
Italy	Estimation	Estimation
Luxembourg	Available since 2006	Available since 2006
Netherlands	Estimation	Estimation
Romania	Estimation in 2010 and 2011	Estimation in 2010 and 2011
Slovakia	Estimation	Estimation
Sweden	Estimation	Estimation
United Kingdom	Estimation	Estimation

The results of the model

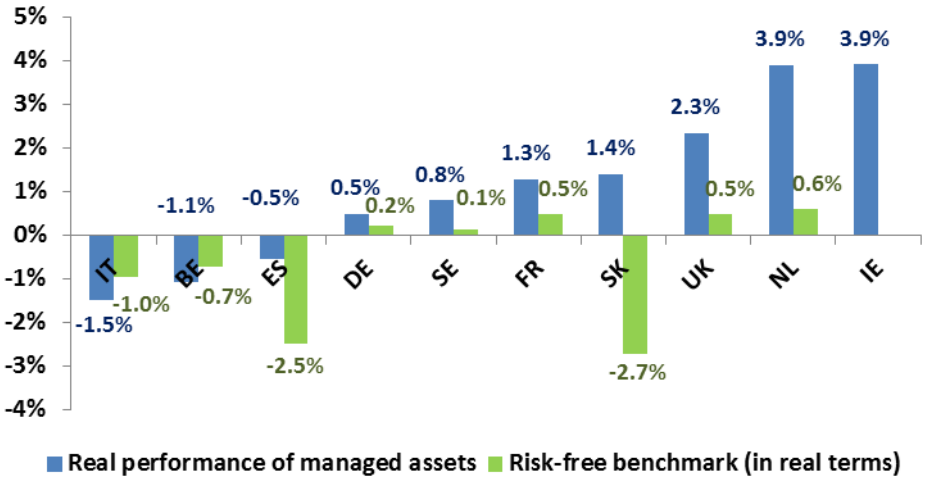
Data available in nine countries allows for computation of the financial performance of managed assets from the end of 1995 to the end of 2012. The annual averages of real performance rates range from -2.1% in Slovakia to 4.7% in the Netherlands. Three countries – Slovakia, Italy and Spain – record negative returns. Over this 17-year period, the loss amounts to 19% of the initial investment in Spain, 22% in Italy and 30% in Slovakia. Countries with high pre-funded retirement schemes (the Netherlands, the United Kingdom and Sweden) tend to perform better than countries where individual life insurance contracts dominate. Pension fund assets include a significant percentage of equity, which performed better than interest rate products in the long run. Conversely, guaranteed life insurance contracts protect investors against a loss in capital but they deliver lower returns. To put these performances into perspective, we assessed risk-free benchmarks per country as follows: We calculated the annual average of reinvested interest on deposits from households redeemable at notice of up to three months published by the ECB, from which we then deducted the corresponding inflation rate ("HICP"). Professionally managed assets performed better than this benchmark in all countries, except Italy. The performance of managed assets is higher than interests on short-term deposits.

Chart 29. Real performance of managed assets: Annual average (1996-2012)



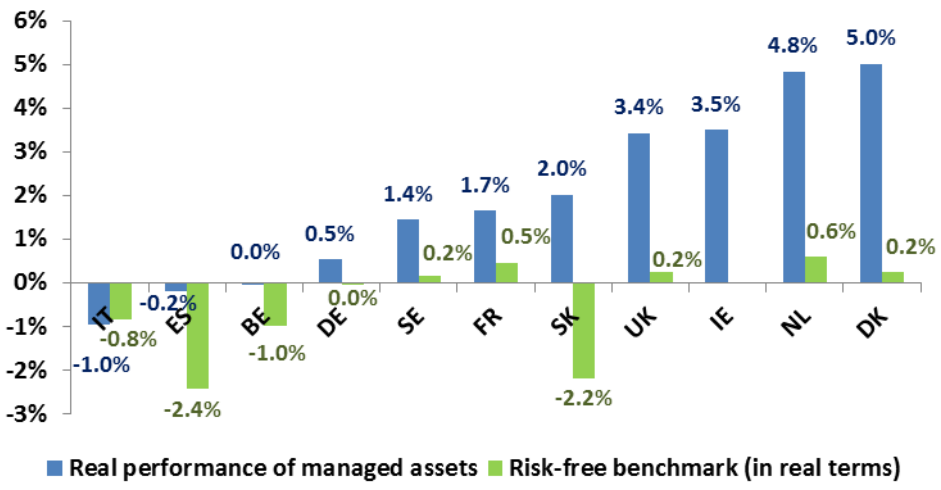
Looking at a shorter period, 2002-2012, allows Ireland to be included in the comparison. Ireland shows a profile similar to the United Kingdom due to the weight of pension funds in this country. However, it should be noted that no data are available on household holdings of investment funds in Ireland; available data only cover life insurance and pension funds. During this period, the hierarchy of countries is different from the previous longer period; Belgium records a negative return, Slovakia a positive one.

Chart 30. Real performance of managed assets: Annual average (2002-2012)



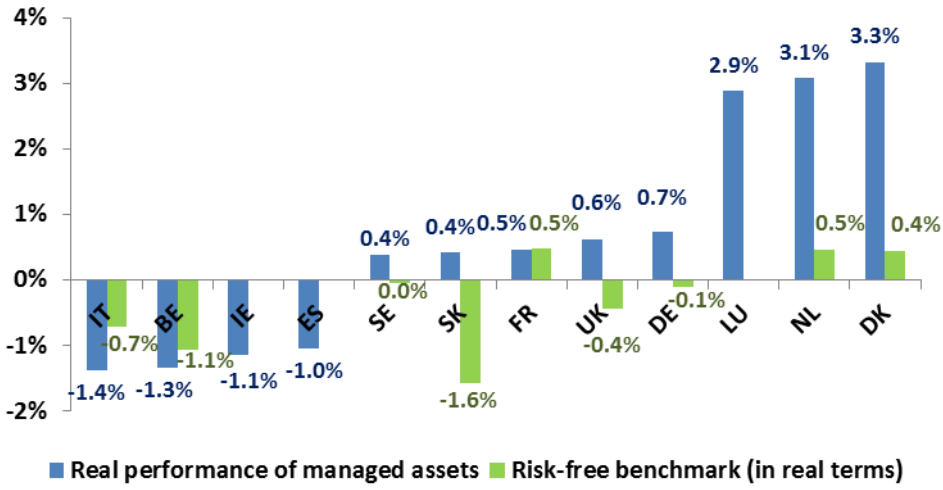
Starting in 2004 allows the inclusion of Denmark, which is the best performer during this period. Denmark is one of the European countries where pension funds are the largest.

Chart 31. Real performance of managed assets: annual average (2004-2012)



Finally, starting in 2007 allows for the inclusion of Luxembourg in the comparison and also to focus on the impact of the financial crisis. During this period, three countries with an average annual performance around 3% (Luxembourg, the Netherlands and Denmark) contrast with all other countries, which show returns between -1.4% and +0.7%. Countries where banks are over-weighted in stock exchange capitalisation have especially suffered; the United Kingdom joins other countries with a poor performance. The Italian financial asset management industry is the worst performer.

Chart 32. Real performance of managed assets: Annual average (2007-2012)



Our model takes into account all components of welfare gains/loss: investment performance, charges (some of them being already deducted from official data, others being estimated), asset allocation and switching behaviours.

Finally, a key advantage of the indices is that they are based on official data which have been checked according to a pan-European methodology of national financial accounts (SEC 95 standard).

The country indices that we have calculated are acceptable proxies of the welfare provided by asset managers to their clients. However, we recognise that they do not cover portfolios of shares and bonds managed in the framework of private mandates given by wealthy individuals to asset managers.

The approach developed in our model is a macroeconomic one that allows benchmarking the performance of a specific portfolio against the average performance of households in a given country. However, such a benchmark is only one criterion for the assessment of the efficiency of asset management portfolio. As explained by the State Street Center for Applied Research,[28] there are four components of performance for a saver:

- Alpha seeking/beta generation;
- Downside protection;
- Liability management;
- Income management.

Liability management and income management are unique to each investor and can explain why the performance of a portfolio deviates from the overall performance of the market.

[28] State Street, Center for Applied Research, « The influential investor: How Investor Behavior is Redefining Performance », 2012.

V. Conclusion

The study shows that asset management services delivered mixed results in the last ten years and that the higher fees charged by active managers versus passive ones can hardly be explained by superior performance. The study was run on a large sample of investment funds but the outcome would most probably be the same on pension products. A study on default pension funds found that the net performance (after charges) of passive equity funds was on average 0.8% higher than that of active funds over the last five years.[29]

The model, built for the purpose of the present study, also shows that several factors have an impact on financial performance of professionally managed assets, including the way products are wrapped in the framework of pension products and life insurance contracts. Fortunately, managed assets performed better than short-term bank deposits in the last 17 years in most countries.

Transparency of charges and performances, and new provisions in MIFID II concerning the payment of inducements by portfolio managers to distributing networks are also intended to improve the welfare of individual savers. However, it remains to be established whether the same regulation would suit all countries in that area, whatever the structure of the industry.

A potential key driver of an increase in the added value of the portfolio management industry might be progress in management styles towards a diversification of “passive” products away from just index-tracking products in addition to the development of active management that is less correlated with indices.

[29] Ascroft J., 2009, Defined-contribution (DC Arrangements in Anglo-Saxon countries, OECD Working papers on Insurance and Private Pensions n°35, OECD quoted in « Charges in Qualifying Pension Schemes, DWP, 29/10/2013).

Annex 1. Questionnaire sent to stakeholders

Study on the performance and efficiency of the EU asset management industry

IODS has been appointed by the European Commission to run a study on the performance and efficiency of the EU asset management industry from the perspective of the financial user. For this purpose, we aim to measure consumer and market "outcomes" of professional asset management in terms of access to various products, safety and security, fairness, transparency and integrity, efficiency, information and advice, accountability and confidence.

We would be grateful if you could provide us with any information, research or data that would contribute to our study. More specifically, we are investigating the following topics:

1. **Investment performance**

Do you have any recommendation as to the choice of relevant benchmarks to assess investment performance of a given fund? (Stock indices. bond indices. performance of all funds in the same category…)

Do you have any information or know of any studies on the impact of investors switching from one fund to another on their performance over time, as compared to a "buy-and-hold" strategy? In other words, are the costs associated with decisions to switch (and possibly incur a new set of front-end/initial charges) offset by the likelihood of investment performance?

2. **Charges**

Could you provide us with any study analyzing the trends in management fees, distribution fees and operating expenses? Available databases on investment funds include information on maximum management, subscription and redemption fees as disclosed to investors. We need to estimate the spread between these theoretical fees and the actual ones, depending on the nature and size of the investors and on the distribution channels.

We are especially interested in knowing more on entry and redemption costs, not only of investment funds but also retail products invested in investment funds, such as structured products, life insurance contracts, etc.

3. **Charges and performance correlation**

Are you aware of any research on the correlation between fees charged by asset management companies and performance and the impact of fees on performance?

4. **Resource allocation to the real economy**

Are you aware of any research on the asset managers' outcome in terms of asset allocation in general and, more specifically, in the choice of specific asset classes and of industry sectors over time?

5. **Disclosure and transparency**

What is your appreciation of the application of Global Investment Performance Standards (GIPS)? Is there any code of conduct related to this standard in your country / jurisdiction?

What is the current status on fee transparency in your country / jurisdiction?

6. **Confidence and trust**

Could you provide us with any study or survey data on levels of consumer confidence and trust in the asset management industry?

To which extent do you believe that the volume of net sales (or redemptions) can be explained by the level of confidence in asset management over time?

The financial crisis resulted in an increased distrust in the financial system, especially of the banks. What have been the impacts of this trend on the asset management industry specifically?

7. **Market structure information**

Could you provide us with information or studies on the main specificities of the asset market structure of asset management in your country or any recently identified trends in terms of size, distribution channels, value chains in the industry and concentration of the industry?

Annex 2. Performances of bond funds depending on their focus of investment

Performance of EU bond funds with a focus of investment on the Czech Republic (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	32.6%	28.9%
Nominal average annual performance	2.9%	2.6%
Real performance: 10 years	5.8%	2.8%
Real average annual performance	0.6%	0.3%
Real performance with switching behaviour: 10 years		0.1%
Real average annual performance with switching behaviour		0.0%

Performance of EU bond funds with a focus of investment on Denmark (2003-2012)		
	Before deduction of maximum subscription and redemption fees	***After deduction of maximum subscription and redemption fees***
Nominal performance: 10 years	10.1%	8.4%
Nominal average annual performance	1.0%	0.8%
Real performance: 10 years	-7.9%	-9.3%
Real average annual performance	-0.8%	-1.0%
Real performance with switching behaviour: 10 years		-10.6%
Real average annual performance with switching behaviour		-1.1%

Performance of EU bond funds with a focus of investment on Greece (2003-2012)		
	Before deduction of maximum subscription and redemption fees	*After deduction of maximum subscription and redemption fees*
Nominal performance: 10 years	-21.7%	-24.0%
Nominal average annual performance	-2.4%	-2.7%
Real performance: 10 years	-40.1%	-41.9%
Real average annual performance	-5.0%	-5.3%
Real performance with switching behaviour: 10 years		-43.9%
Real average annual performance with switching behaviour		-5.6%

Benchmark performance for bond funds with a focus of investment on Greece (2003-2012)		
	Without fee consideration	*After deduction of average maximum management fees for active funds*
Barclays Greece Govt All Maturities TR: 10 years	-18.5%	-29.5%
Barclays Greece Govt All Maturities TR: Average annual performance	-2.0%	-3.4%

Performance of EU bond funds with a focus of investment on Hungary (2003-2012)		
	Before deduction of maximum subscription and redemption fees	*After deduction of maximum subscription and redemption fees*
Nominal performance: 10 years	93.5%	87.2%
Nominal average annual performance	6.8%	6.5%
Real performance: 10 years	22.9%	19.0%
Real average annual performance	2.1%	1.8%
Real performance with switching behaviour: 10 years		15.2%
Real average annual performance with switching behaviour		1.4%

Performance of EU bond funds with a focus of investment on Poland (2003-2012)		
	Before deduction of maximum subscription and redemption fees	*After deduction of maximum subscription and redemption fees*
Nominal performance: 10 years	68.1%	65.6%
Nominal average annual performance	5.3%	5.2%
Real performance: 10 years	27.6%	25.7%
Real average annual performance	2.5%	2.3%
Real performance with switching behaviour: 10 years		23.8%
Real average annual performance with switching behaviour		2.2%

Performance of EU bond funds with a focus of investment on Spain (2003-2012)		
	Before deduction of maximum subscription and redemption fees	*After deduction of maximum subscription and redemption fees*
Nominal performance: 10 years	18.2%	17.9%
Nominal average annual performance	1.7%	1.7%
Real performance: 10 years	-6.9%	-7.1%
Real average annual performance	-0.7%	-0.7%
Real performance with switching behaviour: 10 years		-7.4%
Real average annual performance with switching behaviour		-0.8%

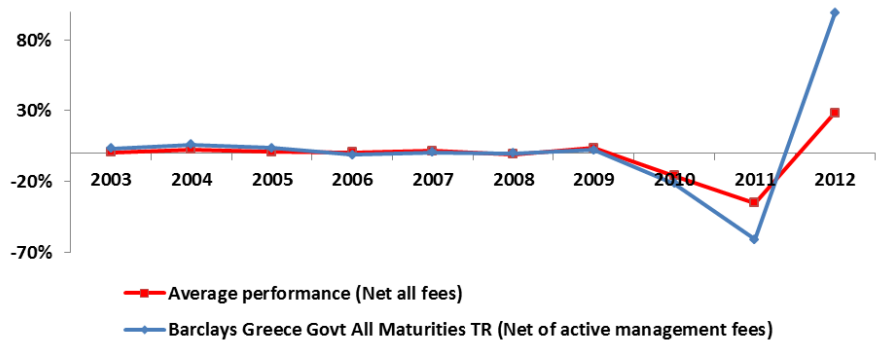
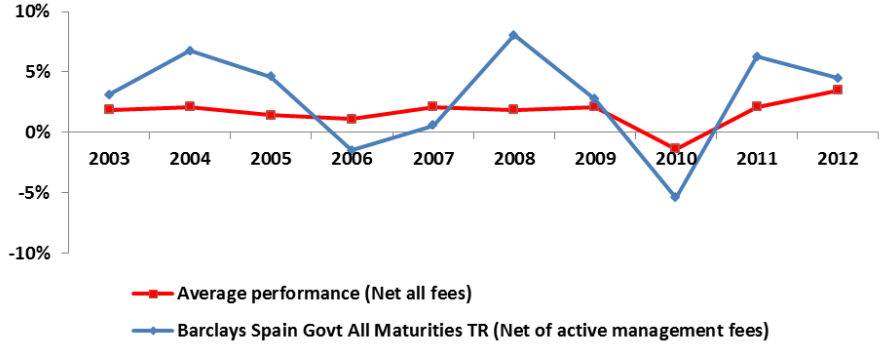
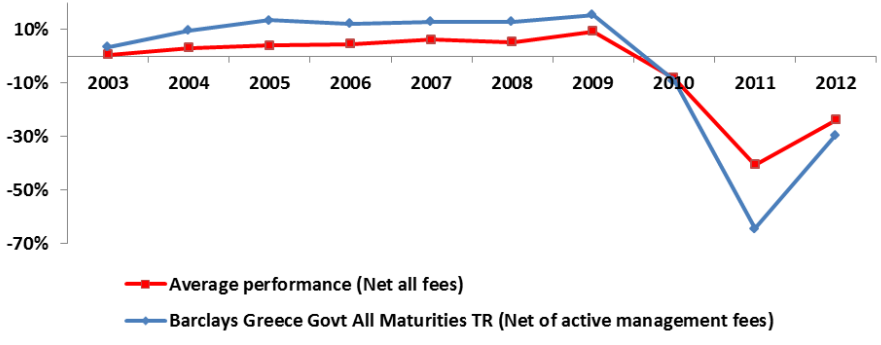
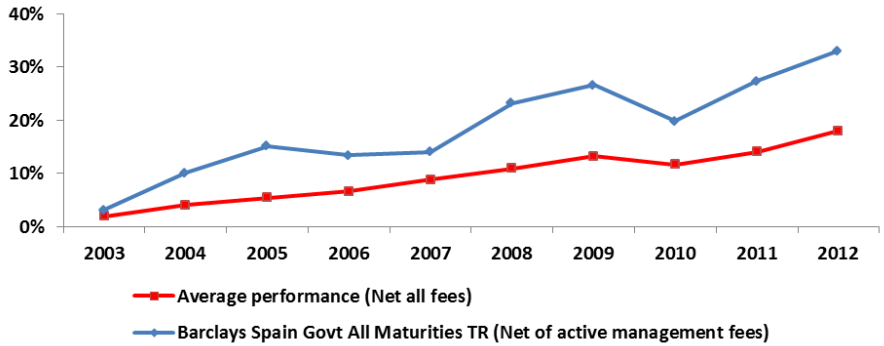
Benchmark performance for bond funds with focus of investment on Spain (2003-2012)		
	Without fee consideration	*After deduction of average maximum management fees for active funds*
Barclays Spain Govt All Maturities: 10 years	47.2%	33.0%
Barclays Spain Govt All Maturities: Average annual performance	3.9%	2.9%

Performance of EU bond funds with a focus of investment on Sweden (2003-2012)		
	Before deduction of maximum subscription and redemption fees	*After deduction of maximum subscription and redemption fees*
Nominal performance: 10 years	16.2%	14.5%
Nominal average annual performance	1.5%	1.4%
Real performance: 10 years	0.6%	-0.9%
Real average annual performance	0.1%	-0.1%
Real performance with switching behaviour: 10 years		-2.3%
Real average annual performance with switching behaviour		-0.2%

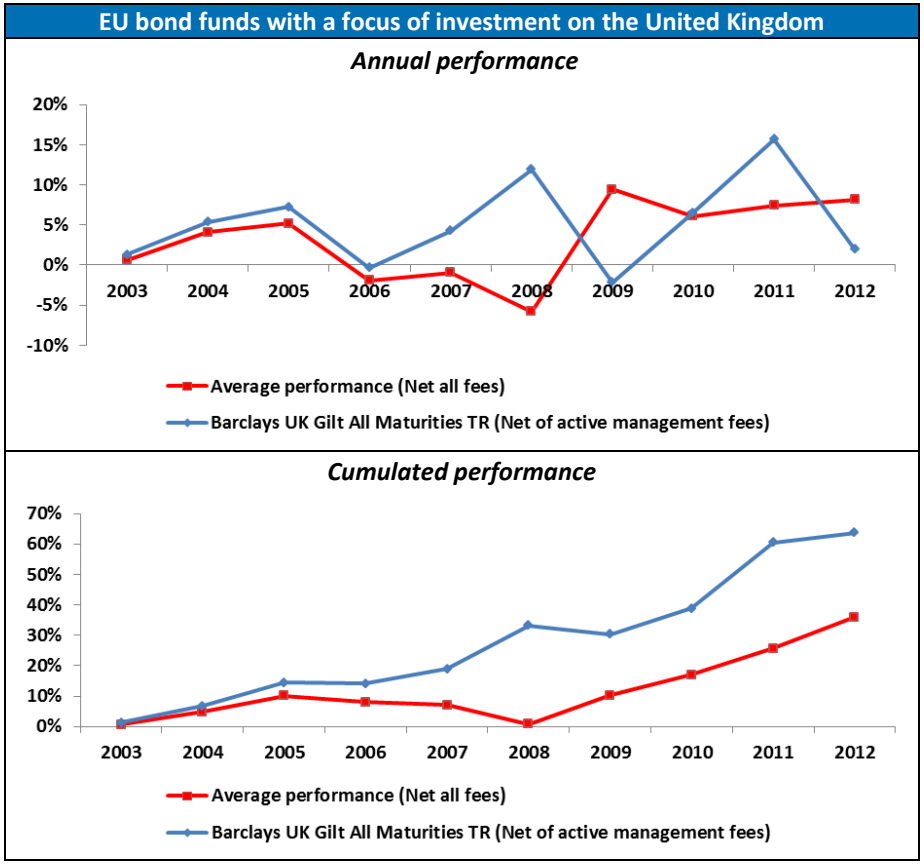
Performance of EU bond funds with a focus of investment on the United Kingdom (2003-2012)		
	Before deduction of maximum subscription and redemption fees	*After deduction of maximum subscription and redemption fees*
Nominal performance: 10 years	39.9%	35.9%
Nominal average annual performance	3.4%	3.1%
Real performance: 10 years	10.0%	6.8%
Real average annual performance	1.0%	0.7%
Real performance with switching behaviour: 10 years		4.2%
Real average annual performance with switching behaviour		0.4%

Benchmark performance for bond funds with a focus of investment on the United Kingdom (2003-2012)		
	Without fee consideration	*After deduction of average maximum management fees for active funds*
Barclays UK Gilt All Maturities TR: 10 years	79.3%	63.6%
Barclays UK Gilt All Maturities TR: Average annual performance	6.0%	6.0%

Annex 3. Selected performance charts of EU bond funds (2003-2012)

EU bond funds with a focus of investment on Greece	EU bond funds with a focus of investment on Spain
Annual performance 	***Annual performance*** 
Cumulated performance 	***Cumulated performance*** 

EU bond funds with a focus of investment on the United Kingdom



Annex 4. Equity fund fees per country of domiciliation

Maximum fees charged by equity funds domiciled in Belgium (funds that were available in 2002)				
		Management fees	***Subscription fees***	***Redemption fees***
Proportion of funds mentioning max. fees (if >0)	***Active funds***	100%	100%	31%
	Passive funds	100%	100%	38%
	All funds	100%	100%	32%
Average fees (if >0)	***Active funds***	1.25	3.06	4.15
	Passive funds	0.62	2.74	3.84
	All funds	1.15	3.01	4.09
Weighted average fees (if>0)	***All funds***	1.41	2.51	0.05

Maximum fees charged by equity funds domiciled in Denmark (funds that were available in 2002)				
		Management fees	***Subscription fees***	***Redemption fees***
Proportion of funds mentioning max. fees (if >0)	***Active funds***	91%	96%	80%
	Passive funds	89%	100%	89%
	All funds	91%	97%	81%
Average fees (if >0)	***Active funds***	1.69	2.03	0.71
	Passive funds	1.42	1.90	0.55
	All funds	1.67	2.01	0.69
Weighted average fees (if>0)	***All funds***	1.85	1.86	0.47

Maximum fees charged by equity funds domiciled in Finland (funds that were available in 2002)				
		Management fees	***Subscription fees***	***Redemption fees***
Proportion of funds mentioning max. fees (if >0)	***Active funds***	98%	89%	93%
	Passive funds	100%	31%	100%
	All funds	98%	85%	94%
Average fees (if >0)	***Active funds***	1.50	1.14	1.00
	Passive funds	0.46	0.64	0.49
	All funds	1.43	1.12	0.97
Weighted average fees (if>0)	***All funds***	1.50	0.93	0.94

Maximum fees charged by equity funds domiciled in France (funds that were available in 2002)				
		Management fees	*Subscription fees*	*Redemption fees*
Proportion of funds mentioning max. fees (if >0)	***Active funds***	99%	97%	21%
	Passive funds	99%	85%	48%
	All funds	99%	96%	25%
Average fees (if >0)	***Active funds***	1.73	3.02	1.40
	Passive funds	1.04	2.78	1.08
	All funds	1.65	2.99	1.33
Weighted average fees (if>0)	***All funds***	1.61	3.09	0.11

Maximum fees charged by equity funds domiciled in Germany (funds that were available in 2002)				
		Management fees	*Subscription fees*	*Redemption fees*
Proportion of funds mentioning max. fees (if >0)	***All funds***	90%	70%	0%
Average fees (if >0)	***All funds***	1.53	4.32	N/A
Weighted average fees (if>0)	***All funds***	1.39	3.17	N/A

Maximum fees charged by equity funds domiciled in Greece (funds that were available in 2002)				
		Management fees	*Subscription fees*	*Redemption fees*
Proportion of funds mentioning max. fees (if >0)	***Active funds***	93%	81%	93%
	Passive funds	N/S	N/S	N/S
	All funds	93%	81%	93%
Average fees (if >0)	***Active funds***	2.65	4.12	1.87
	Passive funds	N/S	N/S	N/S
	All funds	2.62	4.14	1.84
Weighted average fees (if>0)	***All funds***	2.51	3.35	1.82

Maximum fees charged by equity funds domiciled in Italy (funds that were available in 2002)				
		Management fees	*Subscription fees*	*Redemption fees*
Proportion of funds mentioning max. fees (if >0)	***Active funds***	100%	69%	16%
	Passive funds	N/S	N/S	N/A
	All funds	100%	69%	15%
Average fees (if >0)	***Active funds***	1.95	3.48	3.98
	Passive funds	N/S	N/S	N/A
	All funds	1.94	3.42	3.98
Weighted average fees (if>0)	***All funds***	1.90	1.41	N/S

Maximum fees charged by equity funds domiciled in the Netherlands (funds that were available in 2002)				
		Management fees	*Subscription fees*	*Redemption fees*
Proportion of funds mentioning max. fees (if >0)	***Active funds***	99%	88%	94%
	Passive funds	N/S	N/S	N/S
	All funds	99%	87%	94%
Average fees (if >0)	***Active funds***	1.19	1.50	0.72
	Passive funds	N/S	N/S	N/S
	All funds	1.19	1.50	0.73
Weighted average fees (if>0)	***All funds***	1.23	0.72	0.26

Maximum fees charged by equity funds domiciled in Poland (funds that were available in 2002)				
		Management fees	*Subscription fees*	*Redemption fees*
Proportion of funds mentioning max. fees (if >0)	***All funds***	93%	93%	15%
Average fees (if >0)	***All funds***	3.43	4.28	2.88
Weighted average fees (if>0)	***All funds***	3.33	4.29	0.35

Maximum fees charged by equity funds domiciled in Portugal (funds that were available in 2002)				
		Management fees	***Subscription fees***	***Redemption fees***
Proportion of funds mentioning max. fees (if >0)	***Active funds***	100%	38%	93%
	Passive funds	N/S	N/S	N/S
	All funds	100%	38%	93%
Average fees (if >0)	***Active funds***	1.78	0.61	1.93
	Passive funds	N/S	N/S	N/S
	All funds	1.77	0.61	1.91
Weighted average fees (if>0)	***All funds***	2.05	0.22	1.84

Maximum fees charged by equity funds domiciled in Romania (funds that were available in 2002)				
		Management fees	***Subscription fees***	***Redemption fees***
Proportion of funds mentioning max. fees (if >0)	***All funds***	100%	33%	67%
Average fees (if >0)	***All funds***	0.77	1.00	3.50
Weighted average fees (if>0)	***All funds***	0.56	0.39	2.99

Maximum fees charged by equity funds domiciled in Slovakia[30]				
		Management fees	***Subscription fees***	***Redemption fees***
Proportion of funds mentioning max. fees (if >0)	***All funds***	100%	92%	50%
Average fees (if >0)	***All funds***	2.17	3.95	3.80
Weighted average fees (if>0)	***All funds***	1.87	4.42	0.91

[30] Due to a lack of data on funds available in 2002, all equity funds domiciled in Slovakia have been selected.

Maximum fees charged by equity funds domiciled in Spain (funds that were available in 2002)				
		Management fees	***Subscription fees***	***Redemption fees***
Proportion of funds mentioning max. fees (if >0)	***Active funds***	97%	1%	40%
	Passive funds	98%	15%	32%
	All funds	97%	2%	40%
Average fees (if >0)	***Active funds***	1.96	1.05	2.12
	Passive funds	1.45	0.89	2.33
	All funds	1.91	0.96	2.13
Weighted average fees (if>0)	***All funds***	1.88	0.01	1.67

Maximum fees charged by equity funds domiciled in Sweden (funds that were available in 2002)				
		Management fees	***Subscription fees***	***Redemption fees***
Proportion of funds mentioning max. fees (if >0)	***Active funds***	99%	11%	41%
	Passive funds	100%	44%	33%
	All funds	99%	15%	40%
Average fees (if >0)	***Active funds***	1.54	3.13	1.05
	Passive funds	0.71	1.64	1.02
	All funds	1.45	2.61	1.05
Weighted average fees (if>0)	***All funds***	1.33	0.36	0.38

Maximum fees charged by equity funds domiciled in the United Kingdom (funds that were available in 2002)				
		Management fees	***Subscription fees***	***Redemption fees***
Proportion of funds mentioning max. fees (if >0)	***Active funds***	99%	83%	3%
	Passive funds	99%	35%	1%
	All funds	99%	81%	3%
Average fees (if >0)	***Active funds***	1.44	4.95	3.86
	Passive funds	0.97	5.24	4.00
	All funds	1.42	4.95	3.87
Weighted average fees (if>0)	***All funds***	1.45	3.63	N/S