

Morningstar Global Fund Investor Experience Study 2017

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The Global Fund Investor Experience Study 2017

Executive Summary

First published in 2009, the Morningstar Global Fund Investor Experience study has promoted a dialogue about global best practices for mutual funds from the perspective of fund investors. This biennial report measures the experiences of mutual fund investors in 25 countries across North America, Europe, Asia, and Africa. Morningstar researchers evaluated countries in four categories—Regulation and Taxation, Disclosure, Fees and Expenses, and Sales. The grading scale was changed in the 2017 study to better express where a country sits relative to global peers.

Key Take-Aways

- ▶ The previous 12-point letter grades have been replaced by the five-point scale of Top, Above Average, Average, Below Average, and Bottom.
- ▶ Countries around the world continue to improve the environment for mutual fund investors through regulation and better practices.
- ▶ The United States remains at the top of the table in 2017 for overall treatment of investors achieving Top grades for Disclosure and Fees and Expenses. The U.S. continues to trail other markets on Regulation and Taxation and Sales practices.
- ▶ Belgium, France, Italy, Finland, and Spain, all receiving Below Average grades. All of these markets receive Below Average or Bottom grades for Fees and Expenses and Sales. No country received the Bottom overall grade in 2017.
- ▶ South Africa, Australia and Thailand all jumped to Above Average grades off the back of many years of regulatory development.
- ▶ India now stands with the U.S. on Disclosure with both achieving a Top grade. They are also the only markets requiring disclosure or remuneration practice for fund managers.
- ▶ More markets are making funds from other markets available. The percentage of markets indicating that foreign domiciled funds are easily available to investors grew from 52% in 2015 to 64% today.
- ▶ Within Europe, the impending implementation of MiFID II will bring in tougher rules to protect investors, and should see European markets improve their standing in future editions of this study.
- ▶ Improving the quality of management discussion around fund performance in investor communications remains a global priority. Our analysts note that it is rare for such commentary to be insightful or truly valuable for investors.
- ▶ While a number of markets have moved away from paying commissions in 15 of 25 markets, advisors are still paid predominantly through commissions.
- ▶ In 24 out of 25 markets, bank and insurance companies remain one of the most widely available distribution channels. Australia, Canada, New Zealand, and the U.K. are the only markets that feature independent advisors as one of the major distribution channels.

Introduction

The Global Fund Investor Experience, or GFIE, study was created in 2009 to encourage a dialogue about global best practices for mutual funds from the perspective of fund shareholders. The study has been produced every two years with 2017 marking the fifth edition. The information presented, and conclusions reached, in each study have generated significant debate and discussion in numerous markets around the globe and have contributed to a raft of changes. This 2017 edition of the report covers 25 countries.

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

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

This report primarily considers publicly available open-end fundsretail registered investment pools that are not listed on an exchange, althougha limited number of questions on exchange-traded funds were introduced in 2017 to assess the breadth and level of use in markets. The pools do not carry insurance features and generally issue or redeem shares on a daily basis. Open-end funds have a variety of names, depending upon the country, including: mutual funds, investment companies, unit trusts, managed funds, UCITS, and SICAVs. For the purpose of simplicity, they are called "mutual funds" or just "funds" in this report. The GFIE study does not evaluate the investor experience of other pooled investment vehicles, such as guaranteed funds, variable annuities, insurance-linked funds, private pension funds, closed-end funds, collective investment trusts, hedge funds, private-equity funds, venture-capital funds, or institutional funds with limited distribution. Within the commentary on individual countries, there is discussion on factors that, while not explicitly incorporated for scoring, are still important for understanding the market.

What Has Changed in 2017

There were a number of changes in 2017 based on feedback to the previous study and the changing environment. These include the way grades are expressed, section and question weightings, and the removal of media as a key focus of the Sales section. Each is discussed below.

Previously, the section and overall grades have been expressed on a 12-point letter scale from F through to A, with B- representing an average score. In reviewing this, we wanted to address two issues. First, we wanted to reduce the number of breakpoints given the very small differences that can separate two grades. In 2017, we have moved to a five-point scale. Second, letter grades have different meanings and connotations around the world. In 2017, the following grades will be issued:

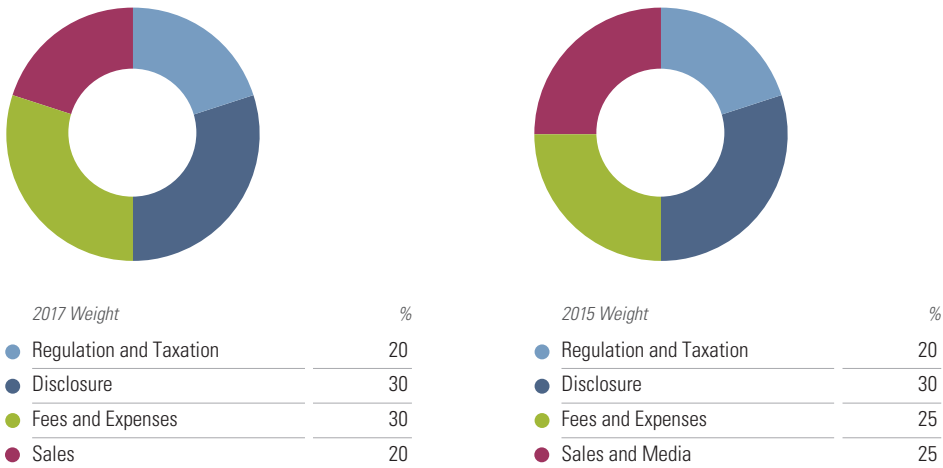
- ▶ Top
- ▶ Above Average
- ▶ Average
- ▶ Below Average
- ▶ Bottom

This terminology should help readers better understand where a country sits relative to global peers. Please note that the grades have not been fitted to a normal distribution, and while there are more Average grades than any other, the actual number varies by section. Every section has a mix of higher and lower grades around the Average grade, so it is easy to identify markets that, in Morningstar's opinion, are adopting best practices and those that need to improve.

Morningstar continues to believe that the media can play a key role in educating investors and holding the fund industry to account. While we continue to ask questions regarding media practices, difficulties in assessing this element consistently across all 25 markets has meant there is a smaller weighting to this element. Use of the World Press Freedom Index was removed in 2017 as it did not always correlate with the way the financial press operated in certain markets. For this reason we have changed the "Sales and Media" section to just "Sales."

The section weightings used for the overall grade were also adjusted to bring Fees and Expenses back up to the same level as Disclosure.

Exhibit 1 Section Weights



Source: Morningstar, Inc.

Morningstar has published numerous studies that show fee levels are an important factor in predicting the relative performance of a fund. Disclosure practices are also essential for investors to understand the investments they are making and the ability for the market to measure and compare what is happening in the industry. The Sales section continues to look at distribution channel structures, the prevalence of open architecture systems, fiduciary duties for advisors, conflicts-of-interest disclosure, and compensation arrangements.

When looking at expense ratios in the Morningstar database, we have historically assessed allocation, equity, fixed-income, and money market funds in four groupings. The money market category has been excluded from the 2017 study because of concerns about the way these funds compete with other cash products and the impact this has on pricing from country to country. The sample sizes for money market funds were also small in a number of markets.

Additional background information has also been provided around fees throughout the report to explain some of the differences observed between markets.

Country Grades

The GFIE study evaluates each country from four perspectives: Regulation and Taxation, Disclosure, Fees and Expenses, and Sales. Each country's four topic grades are combined to form an overall grade. While the separation between grades can be quite small, they are instructive in identifying those markets that are leading in the adoption of best practices. No country receives the lowest overall grade in 2017, reflecting the continual improvement in most markets. While 2017 may be the best time ever to be a fund investor, there is still more that can be done.

Exhibit 2 Overall Scorecard

Top		Above Average		Average		Below Average		Bottom
=	United States	↑	Australia	=	Canada	=	Belgium	
		↓	Korea	↑	China	↓	Finland	
		↑	South Africa	=	Denmark	=	France	
		=	Sweden	=	Germany	=	Italy	
		↑	Thailand	↑	Hong Kong	=	Spain	
		=	United Kingdom	=	India			
				↑	Japan			
				↓	Netherlands			
				=	New Zealand			
				=	Norway			
				↑	Singapore			
				=	Switzerland			
				↓	Taiwan			

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

The United States remains the country with the highest grade, a position it has held since the inception of the study in 2009. The U.S. continues to lead with lower expenses and a strong disclosure regime, both aided by the size and scale of the fund market compared with other countries. The U.S. does have areas to address, with only average results for Sales, and a Regulation and Taxation grade that trails many markets.

The U.S. is followed by six markets that have grades of Above Average. Korea, the United Kingdom, and Sweden maintained their high grades from 2015. Korea still ranks highly based on solid results in Disclosure and Sales. However, lower relative grades in other sections brought it down from

a Top grade in 2015. South Africa was one of the big overall improvers from 2015, with the new Minimum Disclosure Document proving to be more helpful to investors and providing greater disclosure around fees and costs. Australia moved to Above Average with Top grades in both Sales and Fees. While Australia was Below Average for Disclosure, this was still an improvement from 2015.

While not directly captured in the grading model of this study, anecdotally we continue to see high levels of turnover in fund ownership within Asian markets, including Korea and Taiwan. A larger move toward the use of funds for long-term wealth creation, as opposed to trading, remains an important priority.

Over half the markets received an overall grade of Average. This is not surprising when you see the globalisation of the industry. This is driven in part by regulators moving collectively toward best-practice principles and also by the fact that asset managers participating in multiple markets are also looking to apply similar global standards in the way they operate. The continued growth in the use of cross-border funds also impacts this commonality of standards with discussions around fund-pass-porting in Asia likely to see the trend continue in years to come. Notwithstanding this, differences do remain. China and Japan moved from receiving Bottom and Below Average grades, respectively, in the 2015 study to Average overall grades. Both markets saw incremental improvement for both Sales and Fees, while Disclosure continues to be a highlight for China.

France, Italy, Finland, Spain, and Belgium all received Below Average grades. While the European regulatory framework* provides some consistency across these markets, our study looks at specific local factors. For example, the study considers both locally domiciled and available for sale funds when examining expense ratios and front-load data. All of these markets receive Below Average or Bottom grades for Fees and Expenses and Sales.

*The Undertakings for Collective Investments in Transferable Securities directive (UCITS; updated to the fifth revision, known as UCITS V, with discussion on UCITS VI still under way) and the Markets in Financial Instruments Directive (MiFID, with MiFID II to come) ensure that fund regulations, disclosure, and marketing meet minimum standards across the continent.

Regulation and Taxation

The Regulation and Taxation section had the closest grades of any section as indicated by the large number of Average grades. No country received a Top grade, but Singapore led a group of three with Above Average grades, while Australia had the lowest grade. As in 2015, the U.S., the country with the highest overall grade, fared relatively poorly for Regulation and Taxation, earning a Below Average. South Africa fared strongly, improving its grade from 2015, followed closely by a group of countries from both Asia and Europe.

Exhibit 3 Regulation and Taxation Scorecard

Top		Above Average		Average		Below Average		Bottom
	↑	Italy	=	Belgium	=	Canada	=	Australia
	=	Singapore	=	China	=	New Zealand		
	↑	South Africa	=	Denmark	=	United States		
			=	Finland				
			=	France				
			=	Germany				
			↓	Hong Kong				
			=	India				
			↓	Japan				
			↓	Korea				
			=	Netherlands				
			↓	Norway				
			=	Spain				
			=	Sweden				
			=	Switzerland				
			=	Taiwan				
			=	Thailand				
			↓	United Kingdom				

Grade change indicators: ↑ Improved since last survey; ↓ Declined since last survey; = No change since last survey

Source: Morningstar, Inc.

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

this single regulator oversee all investment funds, helps reduce the cost of regulation and simplifies the message to fund companies.

Additional best practices include adequate staffing, public disclosure, and stability. Adequate staffing is needed so that the regulator can pursue infractions as needed and can be proactive in addition to reactive. Public disclosure of the regulator's actions serves two purposes. First, it discourages malfeasance by deterring similar violations. Second, it gives the investing public the confidence that it is aware of all industry issues—nothing is being hidden from view. Finally, stability helps to ensure compliance—if the rules are well-known, they are likelier to be followed. Regulations need to be updated in a timely fashion to handle emerging practices and changes in the marketplace, but the alterations should not be too frequent.

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

As a general rule, Morningstar finds that regulatory enforcement is comprehensive across the globe, but not proactive. In response to issues highlighted during the financial crisis, there has been a significant amount of regulation introduced over the past five years that aims to help or protect investors. Interestingly, the U.S. probably had the least activity in this area and appears toward the bottom of the scoring for this category. Clearly, this market has well-established practices and structures, but other markets are developing at a faster rate in this area. Indeed, although plans for reform are being proposed in Canada and in the U.S., through the Department of Labor Fiduciary Rule, timing for the latter has been pushed back since the election of Donald Trump. While each country has certain nuances on the implementation, at a headline level the trend is to discourage or, in some instances, ban advice charges being levied in the form of commission and to create an environment where the investor pays directly for their advice rather than via retrocessions from their investments. We see this as a largely positive trend for investors in that it encourages wealth management firms to move from a commission-based model to offering advice for an explicit fee; this puts additional focus on mutual fund expenses and provides greater transparency for investors. It also encourages firms to use financial technology to create innovative advice solutions.

The Netherlands joined markets like the U.K. and Australia in banning commissions, but, unlike other markets, it did so with relatively few grandfathering provisions—investors were required to be moved to funds with no trailer fees paid to advisors, with a limited number of exceptions. Singapore has introduced requirements for advisors to be remunerated on a balanced scorecard approach and not pure sales. Within Europe, MiFID II will bring in tougher rules to protect investors, manage systemic risks, and improve transparency and competition. MiFID II introduces the concept of independent advice, with a number of prerequisites for advice to be considered independent. These include, but are not limited to, considering a sufficiently wide and diverse range of financial

instruments (by type, issuer, and product provider) as well as the prohibition of the receipt and retention of any inducements, commissions, or monetary or nonmonetary benefits from any third parties, such as product providers. Local regulators in Europe are also selectively moving to harmonise local laws with European requirements. Morningstar also observes increased globalisation of regulatory standards both through coordinated efforts by regulators and a growing awareness of global best practices.

Moving from the actions and structure of the regulator to issues controlled by fund companies, Morningstar believes that both fund auditors and fund custodians should be completely independent of the fund companies that they serve. Pleasingly, most of the countries in the GFIE study prohibit the management firm and fund custodian from sharing common ownership.

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

The otherwise strong U.S. market is an exception and one where fund companies commonly use soft-dollar arrangements and which does not have regulation or a regulatory body overseeing such arrangements. (The CFA Institute fills some of this gap with a code of conduct that mandates all CFA charterholders may use soft-dollar arrangements only if they benefit investors.) In contrast, all European countries subject to MiFID adhere to rules that limit soft-dollar usage to research that benefits investors, and this must have a clearly defined value that is funded either directly from a portfolio manager's resources or a separate research payment account.

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

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

While fund-passporting is a growing discussion on the global stage, Europe remains the only market where funds (UCITS) receive automatic registration in multiple markets. Within Asia-Pacific, there are a growing number of markets prepared to register funds from other markets, and under the passporting initiative, there are streamlined registration processes available for countries that meet

specific provisions. Separate to the regulatory requirements, Morningstar observes that foreign-domiciled funds are easily available to investors in most markets, with the exception of Australia, Canada and the U.S.—a clear expansion over 2015.

Exhibit 4 Are Foreign Funds Easily Available to Investors?

	Country Count	Percent of Countries %	Percent of Countries 2015 %
Yes	17	68	52
Somewhat	5	20	28
No or Rarely	3	12	20

Source: Morningstar, Inc.

When assessing taxation within this study Morningstar is looking at the matter solely from the perspective of a fund investor, a lower tax rate is better, and tax incentives that reward long-term investing are better. Morningstar has no view on a country's optimal tax policies. While recognising the complexity and interdependencies of tax systems, the GFIE study evaluates taxes only from the perspective of the mutual fund investor. Additionally, the analysis only considers taxes for investors with citizenship or permanent residency in each market.

Ideally, the fund investor would pay no taxes at all. Of the 25 countries in the GFIE study, Singapore and Hong Kong meet this standard. The remaining 23 countries do levy taxes on fund investors but typically ease the burden by offering tax breaks for long-term fund owners. In fact, investors in Thailand investing in long-term equity funds can receive a tax credit that more than offsets ongoing taxes, although the qualifying period recently increased from five to seven years and the benefit will be phased out completely for investments from 2019. There are six markets where no additional tax benefits specific to fund investing exist, including Australia, Canada, Taiwan, and the U.S.

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

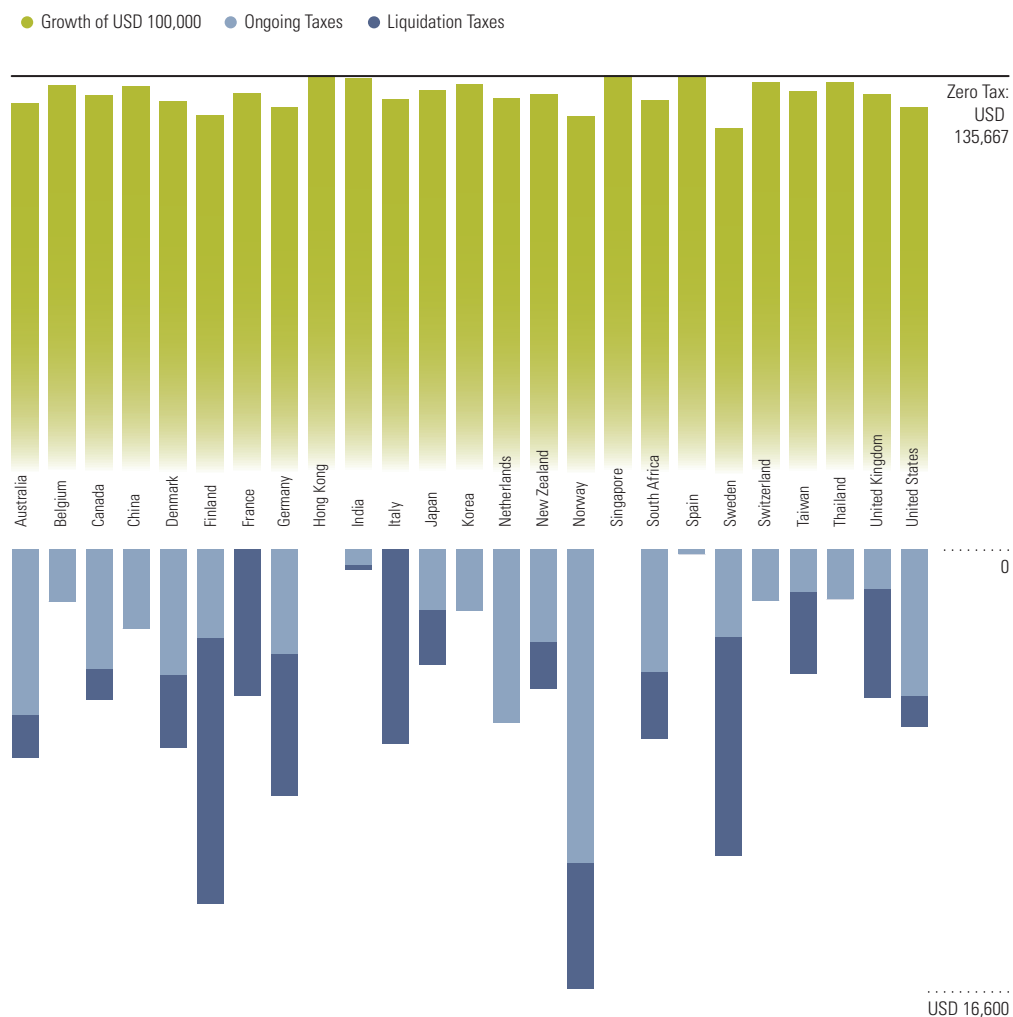
Next in attractiveness is to exempt fund investors from capital gains while they hold a fund but to tax a portion or all of the fund's income. Many countries have variations of this policy with the U.S. and Australia being notable exceptions.

Other tax features that assist fundowners include dividend imputation, where investors only pay taxes on the difference between their personal tax rate and the tax rate that the corporation

has already paid through its corporate taxes; applying an inflation index to capital gains taxes; and having the capital gains rate decline over time to reward investors for holding securities longer. Finally, many countries establish tax-protected retirement or long-term savings accounts that are under different tax regimes than are standard fund accounts. Countries where the level of tax is already quite low or nil must look for means other than tax to incentivise retirement savings. Importantly, where tax incentives do exist, the investment options available to achieve those incentives can be quite different to the funds available for ordinary investments in 12 of the markets reviewed.

In measuring the overall attractiveness of a country's tax policy toward fund investors, Morningstar calculated the tax effect on a hypothetical investment that is held for five years. The portfolio consists of 60% in equity funds and 40% in fixed-income funds for a married couple with a combined income of USD 100,000.

Of course, the calculations are affected by the assumptions about the holding length, the portfolio assets, the income, and whether the subject is married or single. Nonetheless, the results are reasonably robust in that the rank order of countries tends to be fairly consistent no matter which assumptions are used.

Exhibit 5 Effect of Taxes on Hypothetical Investment Portfolio

Source: Morningstar, Inc.

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

Disclosure

In the area of Disclosure, the United States and India earn Top grades, with five countries—Canada, Korea, Sweden, Taiwan, and Thailand—getting Above Average grades. While most countries occupy roughly similar positions as in the 2015 survey, India and Thailand took notable jumps upward as their disclosure practices improved significantly. Although South Africa did not earn one of the highest two grades—it lands in the Average range—that too was a noteworthy improvement, for in 2015 it merited a Bottom grade, along with Australia—which is Below Average in 2017.

Exhibit 6 Disclosure Scorecard

	Top		Above Average		Average		Below Average		Bottom
↑	India	=	Canada	=	China	↑	Australia		
=	United States	=	Korea	↓	Denmark	=	Belgium		
		=	Sweden	↓	Finland	=	France		
		↓	Taiwan	=	Germany	=	Italy		
		↑	Thailand	↑	Hong Kong	=	Japan		
				=	New Zealand	↓	Netherlands		
				=	Norway				
				↑	Singapore				
				↑	South Africa				
				=	Spain				
				=	Switzerland				
				=	United Kingdom				

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

Disclosure begins with a fund's initial document—the prospectus. In recent years the traditional long and complex prospectus generally has been replaced with a shorter version, known as the short-form or simplified prospectus, or in the European Union as the KIID (Key Investor Information Document). That is a beneficial development for prospective investors, because—if best practices are followed—it allows them to see a fund's costs, risks, investment strategy, and other information written in plain language in an easily digested format. But practices vary from country to country. Ideally, the simplified prospectus will cover a single fund rather than a collection of funds, be no longer than four or five pages, and avoid investment jargon and legalese as much as possible. Information about the fund's risks and investment strategy should be specific to the fund rather than using generic, boilerplate language that could apply to any fund.

A critical item in both the simplified and long-form prospectus is the presentation of ongoing fees. In this report we use the expense ratio as a general term to describe the ongoing fee measures used in the various markets covered in this survey. Given the importance of fees to an investor's long-term success, these figures should be presented in a format that allows for easy comparisons. Ideally, the fund will show several years' worth of expense ratios so its own trends will be clear. In addition to costs expressed as percentages, also recommended is a table that lists the total cost on a hypothetical investment amount in currency terms, so investors can see an approximation of what the actual cost would be. In the current survey, only four of the 25 countries require monetary examples in the prospectus, while three others require them in other documents.

Other features that should appear in a prospectus (or in another document if not in the prospectus) are standardised total returns for various time periods, the name and tenure of the fund's portfolio manager(s), summary information about portfolio holdings, and the portfolio management team's compensation structure and incentives. It's encouraging that standardised returns information does appear as of month-end for every country except one, for which it appears annually. But information about managers' investment in their own funds is less common, with only three countries requiring disclosure of this information. The same minuscule number of countries requires disclosure of manager compensation structures (in two other countries it is not required but is often disclosed). While still small, those numbers are actually an improvement; in our prior survey in 2015, only the U.S. provided detailed information about portfolio managers' compensation structures and the amount of money (within a standardised range) that they have invested in the funds they manage. In this year's edition, India went the furthest in this regard; it is now the only country in the survey requiring funds to disclose actual amounts of compensation for managers.

Also positive: In 18 of the 25 countries, the simplified prospectus is typically four pages or less, with many at a maximum of two pages. While Morningstar believes that excessive length should be avoided, we equally recognise that a race to one page will not always produce the best outcome. An increasing use of technology will also see these documents evolve in years to come. Plain language is generally used, though in some countries parts of the document remain challenging for ordinary investors to understand.

Less positive results are reported for manager information. It is important for investors to know who manages a fund and when their tenures began, in order to know who is responsible for a fund's strategy and performance during different periods, and also to know if the managers at a fund are changing frequently or are in place for the long haul. Only 11 countries require fund manager names to be disclosed (including a couple of cases where disclosure of names is not required but is almost always provided). Tenures are usually provided in these countries, but sometimes the tenure relates to the manager's time at the firm, not the specific fund. In most of the other countries, some funds report manager names and tenures, but far from all funds, and it is not required. Manager names and tenures are rarely divulged in only two countries—Spain and Italy.

In most countries, management discussion of fund performance in shareholder communications is typically either lacking entirely or is of a generic nature, not providing much truly useful information. Only in Denmark, Sweden, and China is it very common for these manager discussions to be insightful and helpful for investors. In the U.S. and Australia, some manager discussions reach that impressive and valuable level, particularly those from boutique management firms, but too many are of the generic variety.

Portfolio Holdings Disclosure

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

The results are similar to those reported in the 2015 survey. Sixty percent of the countries require portfolio holdings to be disclosed semiannually, and nearly all of the others require quarterly disclosure. Australia remains the only country in this survey that does not have any requirement to disclose portfolio holdings. France is the only one in which annual reporting, rather than semiannual or monthly, is required.

Exhibit 7 Disclosure Intervals for Countries With Regulated Portfolio Holdings Disclosure

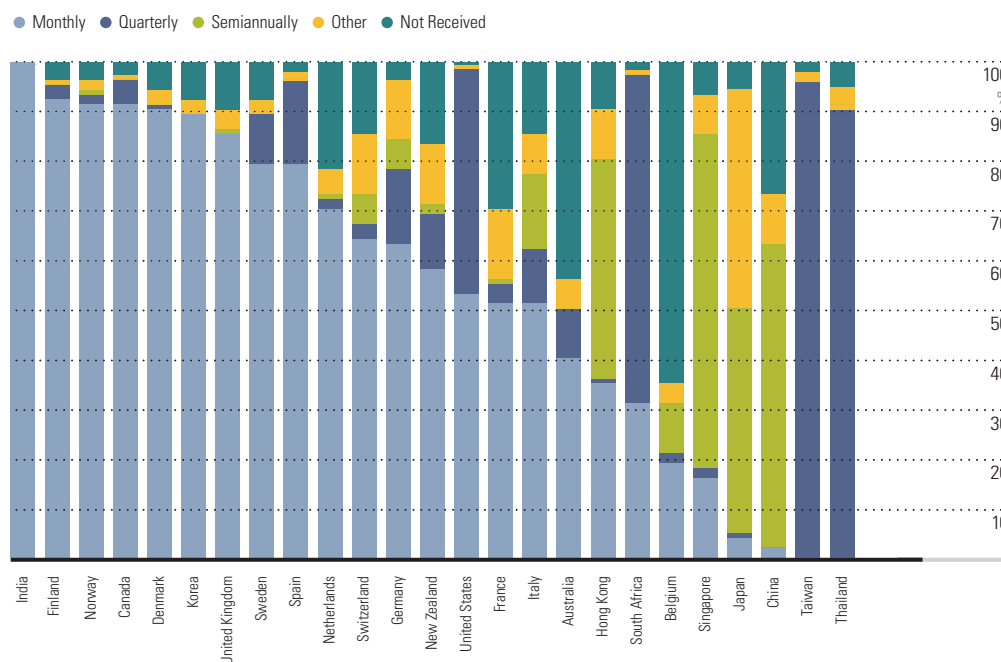
	Number of Countries	Portion of Sample %
Monthly	1	4
Quarterly	7	28
Semi-annually	15	60
Annually	1	4
None	1	4

Source: Morningstar, Inc.

On the bright side, though, in practice many funds report their portfolio holdings more frequently than required by the regulators, at least to Morningstar. In fact, in 10 of the countries in this survey, more than two thirds of mutual funds report their holdings to Morningstar monthly. This is led by India, the only country for which monthly disclosure is required, but also includes Finland, Denmark, Norway, Canada, Korea, and the United Kingdom, where more than 85% of funds report portfolios to Morningstar monthly. And in 16 of the countries, at least half of funds do so.

The graph below provides an indication of how often portfolios are actually provided to Morningstar in the countries included in this survey for open-end funds domiciled in that market.

Exhibit 8 Monthly Provision of Portfolios Is Quickly Becoming the Standard

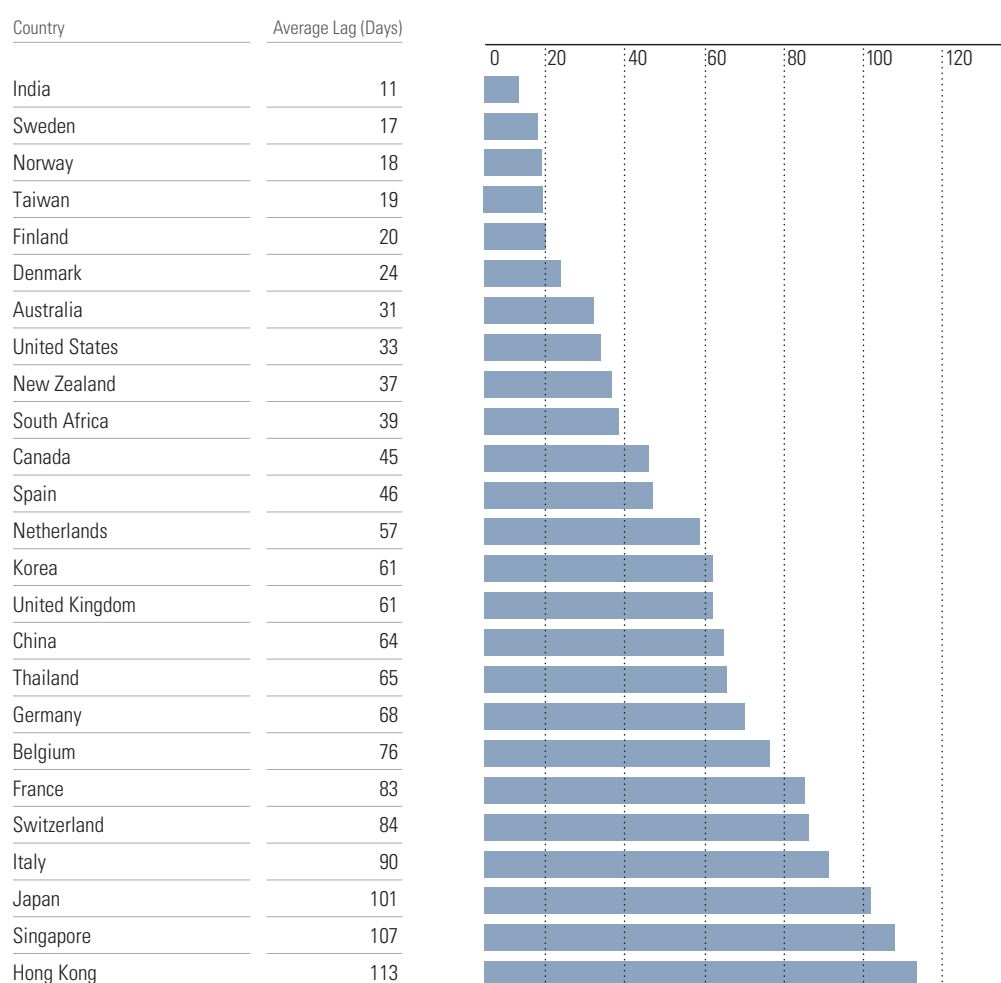


Notes: Australia—portfolios are not displayed in full but used mainly for fund and portfolio analytics. New Zealand—still in a transition period, with figures likely to improve over the next two years. Thailand—will move to a minimum quarterly disclosure with the June 30, 2015, portfolios. Source: Morningstar,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

Also important is how long after the end of a quarter or other period that the portfolio holdings are disclosed. After all, while real-time portfolio disclosure is certainly not expected, the holdings disclosure becomes less relevant and useful the longer the lag period. The most appropriate lag period is often debated, but regulators have typically settled on 60 or 90 days as the most common time frame. In order to reflect actual practice, the following exhibit shows not this regulated maximum, but the number of days after a period's end that Morningstar typically releases a portfolio into its system for viewing and analytics. For example, if a fund delivers a portfolio to Morningstar on day 10 after period-end but requests that the portfolio be suppressed from general release until day 60, it is recorded as a 60-day lag period for this exhibit.

The good news here is that funds in many countries are on average releasing portfolios earlier—in some cases much earlier—than required by regulators. As in the previous graph, India and the Nordic countries can be found at or near the top, which is similar to their places in the 2015 survey. One common theme in countries with longer lag periods is the failure for the local market to adopt electronic dissemination of data. Given the use of sophisticated data transfer technologies in other parts of the financial-services industry, we find it surprising that simple Excel spreadsheets remain a challenge in other parts.

Exhibit 9 Average Portfolio Release Lag



Source: Morningstar, Inc.

Fees and Expenses

Our 2017 calculations of asset-weighted median fees in the major asset classes—equity, fixed income, and allocation—show continued downward pressure on fees in many global markets. Taken together, bans on (or substantial waivers of) sales loads, continued decoupling of fund expenses from advice charges, bans on commissions, plus mandatory fee transparency, have resulted in a great many investors paying less for funds than ever before. However, the move toward lower total investing costs is anything but linear. While the costs of certain investment products are declining, and relatively cheap exchange-traded funds (not part of our quantitative fee score calculations, yet) are proliferating, investors are in many cases still paying as much to own a portfolio, as lower costs for investments are negated by higher costs for advice (as well as administration and operations), areas that are more difficult to assess on a large scale. Advice fees can vary by investor, advisory firm, and account type, and fee schedules are not required disclosure in the same way as are the various fees associated with a registered fund itself. That said, we maintain that by lowering the cost of investment products via commission-free share classes and by unbundling other expenses from the cost of investment management, transparency improves and investors benefit. In addition to lowering all-in costs for do-it-yourself investors, those participating in a fee-based advice model may accrue additional benefits from more-individualised service, including savings guidance, tax planning, and pension optimisation, which collectively add significant value to the investor experience. If it is clear that an investor is paying for advice, then they are more likely to receive better quality advice.

In calculating our overall Fees and Expenses grade, we heavily emphasise the asset-weighted median expense ratios, as they represent current investor experiences quite well. It is important to note that even in markets that are adopting lower-cost funds, the asset-weighted median will be impacted by where all assets sit today, so even in markets that have banned commissions like the United Kingdom and Australia, the quoted expense ratio includes funds previously used with those higher cost structures. We vary the predominant data point to obtain what we consider to be the best estimate of representative fees in a given country, which means using the indirect cost ratio in Australia, the KIID ongoing charge in Europe, a calculated expense ratio in China, and so forth. Collectively, these medians are typically referred to as the expense ratio or ongoing charges throughout this paper. The asset-weighted median values are calculated using only retail funds (those that are not classified as institutional in Morningstar's database and have an investment minimum below USD 100,000) either domiciled or available for sale in the specific country, split into the appropriate groups by asset class. We sort each group by expense ratio, and then calculate a weight and cumulative weight using net assets, substituting fund size in markets such as India where share class net asset data are thin. For markets where the net asset values are reported in various currencies, we convert all to the modal currency for the group or to the U.S. dollar. From

there we determine the 50th percentile and assign the closest actual expense ratio value as the asset-weighted median for the country group.

In addition to the asset-weighted median fees, we also consider whether investors are sacrificing a portion of their assets to one-time payments to an advisor or distributor (often referred to as front loads), the structure and disclosure around performance fees, and the ability to avoid advice fees via loads or trailing commissions when no advice is given. Because we consider only those funds with investment minimums of under USD 100,000, and since these can sometimes vary depending on account type or contribution frequency, minimums did not factor into the analysis.

The overall grades for Fees and Expenses across the study indicate some movement over prior years, with the perennial anchors—the United States, Australia, and the Netherlands—grading highly (which correlates with low fees and investor-friendly fee disclosure), and Canada and Taiwan in the Bottom bucket, primarily as a result of high asset-weighted median expenses. Joining the Top countries for Fees and Expenses are New Zealand and Sweden, with Belgium falling into the Bottom grouping.

Exhibit 10 Fees and Expenses Scorecard

Top		Above Average		Average		Below Average		Bottom	
=	Australia	=	South Africa	↓	Denmark	↑	China	↓	Belgium
=	Netherlands	↑	Thailand	↑	Japan	↓	Finland	=	Canada
↑	New Zealand	=	United Kingdom	↓	Korea	↓	France	=	Taiwan
↑	Sweden			=	Norway	=	Germany		
=	United States			=	Switzerland	↑	Hong Kong		
						↓	India		
						=	Italy		
						=	Singapore		
						↓	Spain		

Grade change indicators: ↑ Improved since last survey; ↓ Declined since last survey; = No change since last survey

Source: Morningstar, Inc.

The U.S., Australia, and the Netherlands share some common attributes that contribute to their repeated Top grades. The asset-weighted median expense ratios consistently rank among lowest in the survey. This is more so the case for Netherlands-domiciled funds than available for sale. The US and Australian markets are closed to funds domiciled elsewhere, so that their low domestic numbers are not impacted by more-expensive offshore funds when calculating the available-for-sale numbers. These two countries either ban front loads, have a low percentage of funds that report front loads, and/or have known practices of waiving the loads. Self-service investors in these

countries can easily find fund share classes to purchase that charge management and administrative costs only, without distribution fees or trailing commissions. The availability and use of these share classes then contributes to lower asset-weighted expenses in a beneficial cycle.

In New Zealand, retail funds are commonly sold via a financial advisor on a platform that includes nonaffiliated funds, and advisors are required by regulation to consider all similar products when making a fund recommendation. While not a true fiduciary standard, this process helps lower fund costs for investors. Annual asset-weighted fund expenses are reasonable across asset classes, and investors not seeking advice can easily purchase funds without loads or trailing commissions. These no-load, no-commission investments constitute a large part of retail investors' assets.

In Sweden, asset-weighted median expenses score in the top quartile (lowest ongoing charges) for most asset classes and types (with the exception of available-for-sale fixed income, though this is still lower than the group median). Domestic funds have shown an investor-friendly trend toward lower fees on an asset-weighted basis since 2015. Stated loads are negotiable, but funds without loads and retrocessions are widely available and heavily used by investors.

In contrast, Taiwan has been expensive and continues to get more expensive on a relative and absolute basis. While the asset-weighted median expense ratio for domestic-allocation funds in Taiwan was flat from the 2013 to the 2015 to the 2017 study, the median expense ratios for domestic fixed-income and equity funds showed a distinct trend upward. Available-for-sale trends, however, were positive (meaning fees were trending lower) and were weighted equally to the domestic-domiciled fund fees data in our model. Some no-load, no-commission funds are available in Taiwan, but these tend to be difficult for investors to locate and use and represent a minimal part of fund assets.

Commissions and retrocessions paid from the fund continue to be the dominant way advisors are paid in Canada, and for the majority of funds in this study. Clean share classes are used in Canada, and their growing adoption is likely to be behind the fall in expense ratios since our 2015 study. Even after this drop, Canada still has some of the highest calculated expense ratios in this study. In a potentially positive development, provincial regulators in January 2017 published evidence in favour of discontinuing embedded commissions. Public responses are currently under review. If implemented, Canada would join top-scoring Australia, the Netherlands and the U.K. in banning retrocessions, and management expense ratios would likely trend immediately and proportionately lower, making these survey inputs much more competitive. While we expect that advisors would recoup at least a substantial portion of this revenue outside of bundled charges, we maintain that lowering the cost of an investment via commission-free share classes benefits investors.

Belgium joins Canada and Taiwan in the Bottom bucket. Asset-weighted medians of KIID ongoing charges rank above (are more expensive than) the median values for each of the three asset classes considered, whether available for sale or domestic. Median fees for Belgian funds showed a significant period-over-period increase from 2015 to 2017, primarily because of a wider sampling of funds qualifying for inclusion in this year's calculations, as well as the predominance of funds with bundled advice fees among the largest funds. Additionally, a majority of funds in Belgium continue to charge front loads, and investors in Belgium can rarely pay for advice outside of commissions and fund expenses. It's also difficult for an investor not getting advice to purchase funds without loads or trailing commissions. These factors collectively push Belgium's Fees and Expenses grade to Bottom.

Regulators in some countries have recently taken action to improve fee disclosure for fund investors. Whether by shining a light on the various fee components that make up a total expense ratio or by forcing disclosure in monetary terms to make expenses more tangible to a typical investor, regulators are setting the table for less expensive funds to gain market share as savvy investors use the new information in making purchase decisions. In Hong Kong, for example, the Securities and Futures Commission implemented "Proposals to Enhance Asset Management Regulation and Point-of-sale Transparency" in February 2017. This guidance is making it easier for investors to identify and compare the fees received by various intermediaries, helping consumers detect potential conflicts of interest and find the best-priced funds. Likewise, effective June 2016, the Association of Savings and Investment of South Africa (ASISA) introduced new minimum disclosure requirements called the Effective Annual Cost method, which comprises four separate groups into which various charges are allocated: investment management charges, advice charges, administration charges, and other charges. Each component value as well as the total estimated annual cost are displayed in a table at four mandatory disclosure periods. In India, regulations have also been introduced requiring the disclosure of commissions earned by distributors to the investors.

In less specific terms, Japan took distributors and fund companies to task on fee disclosure at the point of sale by creating the "Principles for Consumer Oriented Business Conduct" in December 2016. Within these principles, Japan's Financial Services Agency directs financial-instrument business operators to detail their commissions, under any name, including services rendered, and to show any important information for investors choosing a financial product in a non-misleading, easy-to-understand manner.

For these three countries—Hong Kong, South Africa, and Japan—the data have yet to indicate clear downward trends in fees, but this will be an area to watch in future reports. It's likely that already-invested assets will only migrate slowly to better-priced vehicles based on greater disclosure, while new money is more likely to flow to the investments that represent a better value. And while contrarily in Denmark, where distribution fees related to advice had been quite transparent but are now more difficult to find due to adoption of European standards (which will improve with MiFID II),

the overwhelming trend across the survey is toward improved fee disclosure so that investors can better understand and compare the fees of funds they may potentially purchase. This should lead to lower asset-weighted median expenses.

Morningstar considers a monetary illustration of fees based on an assumption of standard monetary value and return to be a best practice in fee disclosure. Australia, Canada, India, Korea, New Zealand, Thailand, and the U.S. currently provide this disclosure in the summary prospectus document. These countries rate anywhere from Top to Bottom in terms of the overall Fees and Expenses grade. This highlights the point that while fee disclosure and required metrics that allow for level fund comparisons can be helpful, if the market is dominated by traditional sales channels that are slow to change, as in Canada, or if all funds perpetuate a pricey status quo, like charging back-end loads in India, the benefit may be limited. The Securities and Futures Commission of Hong Kong has considered requiring a monetary illustration of fees and may act on this topic if a global standard emerges. In Europe, under the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation, a monetary illustration of fees will be required in a presale document by 2020.

Fees and Expenses make up 30% of a country's overall grade in this study. Lower annual fund expenses predict better investment results via both higher net returns and likelihood of fund survival. Morningstar maintains that it's absolutely critical that investors have access to funds with low annual ongoing costs.

While the following tables of asset-weighted median fees—grouped by equity, fixed-income, and allocation funds—may not represent the total cost to an investor, these do facilitate an objective measure in comparing fund costs across markets. The calculations consider two perspectives: funds available for sale in the marketplace and funds that are locally domiciled. Thus, a country is measured both by the opportunity that it gives to investors in registering outside funds (available for sale) and by the costs associated with its own, domestically grown industry.

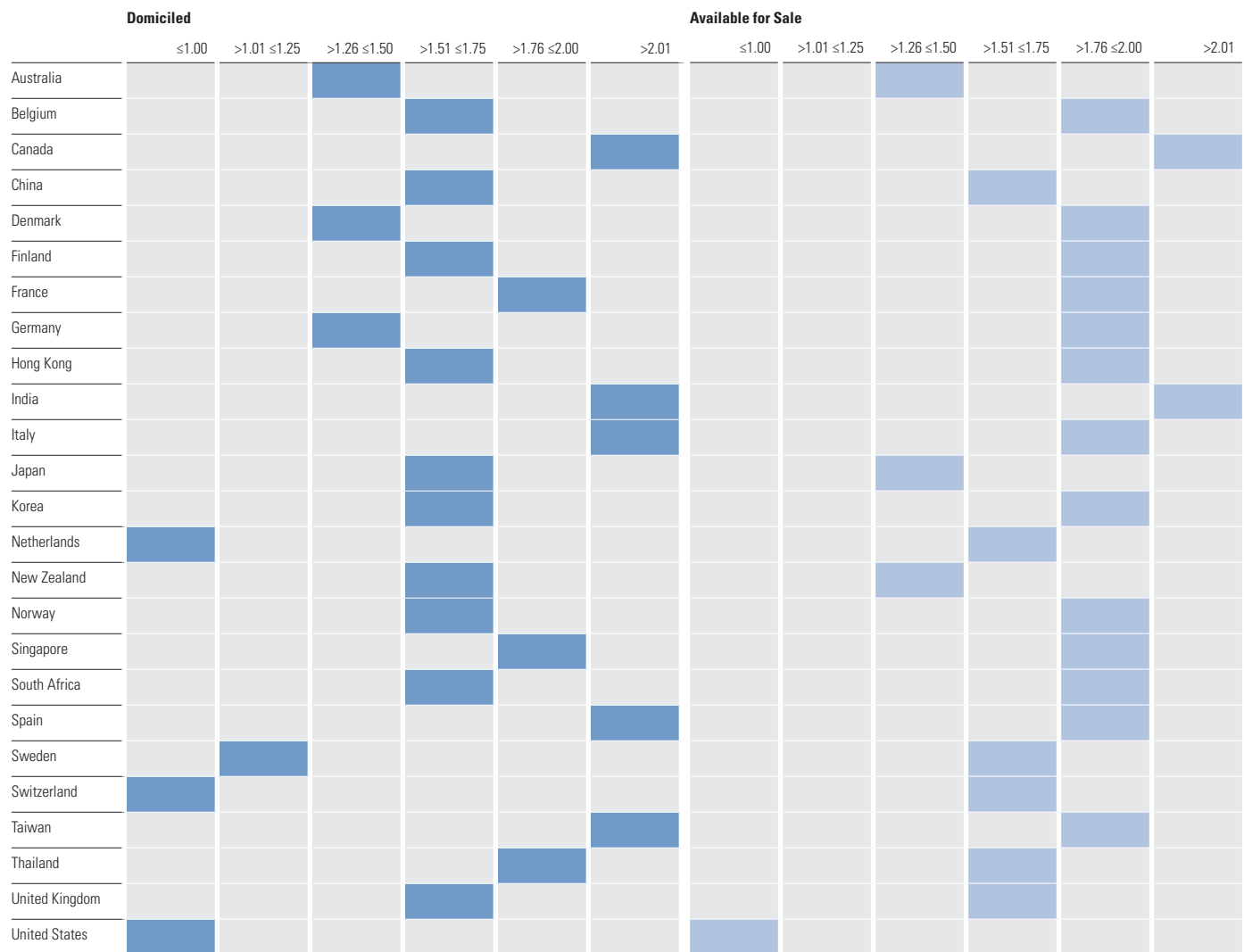
For fixed-income funds, Switzerland, Spain, and the U.S. report some of the lowest fees for domestic funds, and Japan the highest. Domestic interest rates in Japan are low, and funds often seek foreign subadvisors to manage fixed-income funds, contributing in this case to higher costs. In all open markets, the median for funds available for sale is higher than for locally domiciled fixed-income funds, by over 50 basis points in several markets.

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

	Domiciled						Available for Sale					
	≤0.60	>0.61 ≤0.85	>0.86 ≤1.00	>1.01 ≤1.15	>1.16 ≤1.30	>1.31	≤0.60	>0.61 ≤0.85	>0.86 ≤1.00	>1.01 ≤1.15	>1.16 ≤1.30	>1.31
Australia	100%	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%	0%
Belgium	0%	0%	0%	100%	0%	0%	100%	0%	0%	100%	0%	0%
Canada	0%	0%	0%	100%	0%	0%	100%	0%	0%	100%	0%	0%
China	0%	100%	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%
Denmark	100%	0%	0%	0%	0%	0%	100%	0%	0%	100%	0%	0%
Finland	0%	100%	0%	0%	0%	0%	100%	0%	0%	100%	0%	0%
France	0%	100%	0%	0%	0%	0%	100%	0%	0%	100%	0%	0%
Germany	0%	100%	0%	0%	0%	0%	100%	0%	0%	100%	0%	0%
Hong Kong	0%	0%	0%	100%	0%	0%	100%	0%	0%	0%	0%	100%
India	0%	100%	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%
Italy	0%	0%	0%	100%	0%	0%	100%	0%	0%	0%	100%	0%
Japan	0%	0%	0%	0%	100%	0%	100%	0%	0%	0%	0%	100%
Korea	100%	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%	100%
Netherlands	0%	100%	0%	0%	0%	0%	100%	0%	0%	100%	0%	0%
New Zealand	0%	0%	100%	0%	0%	0%	100%	0%	100%	0%	0%	0%
Norway	100%	0%	0%	0%	0%	0%	100%	0%	0%	0%	100%	0%
Singapore	0%	0%	100%	0%	0%	0%	100%	0%	0%	0%	0%	100%
South Africa	0%	0%	100%	0%	0%	0%	100%	0%	100%	0%	0%	0%
Spain	100%	0%	0%	0%	0%	0%	100%	0%	0%	100%	0%	0%
Sweden	100%	0%	0%	0%	0%	0%	100%	0%	0%	100%	0%	0%
Switzerland	100%	0%	0%	0%	0%	0%	100%	0%	0%	100%	0%	0%
Taiwan	0%	0%	0%	0%	100%	0%	100%	0%	0%	0%	0%	100%
Thailand	100%	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%	0%
United Kingdom	0%	100%	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%
United States	100%	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%	0%

Source: Morningstar, Inc.

With the exception of the Netherlands, the asset-weighted median expense for equity funds is higher than for fixed-income funds in all markets. In many cases, the medians for domestically sold funds differ between the asset classes by more than 100 basis points. The range of median fees for equity is wider. Switzerland, the Netherlands, and the U.S. report domestic asset-weighted expense levels below 1%, while Canada, India, Italy, and Spain report median fees of 2% or more.

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

Source: Morningstar, Inc.

Allocation funds are frequently executed in a fund-of-funds structure, with traditional advisory fees for development and execution of the asset-allocation methodology, whether static or flexible, as well as passed-through costs from the underlying funds used. Perhaps because of the proliferation of target-date funds in the U.S. retirement market, and because underlying fund costs are much cheaper there, the U.S. leads asset-weighted median allocation fund costs by more than 20 basis points over the next-cheapest market, Australia. European markets round out the top five for domestic-allocation fund costs, and all are under 1.00%: Sweden, Denmark, and the Netherlands. Given the less competitive costs of cross-border products in Europe, New Zealand, Korea, and Thailand round out the top five after the U.S. and Australia for available-for-sale allocation funds.

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

	Domiciled						Available for Sale					
	≤1.00	>1.01 ≤1.25	>1.26 ≤1.50	>1.51 ≤1.75	>1.76 ≤2.00	>2.01	≤1.00	>1.01 ≤1.25	>1.26 ≤1.50	>1.51 ≤1.75	>1.76 ≤2.00	>2.01
Australia												
Belgium												
Canada												
China												
Denmark												
Finland												
France												
Germany												
Hong Kong												
India												
Italy												
Japan												
Korea												
Netherlands												
New Zealand												
Norway												
Singapore												
South Africa												
Spain												
Sweden												
Switzerland												
Taiwan												
Thailand												
United Kingdom												
United States												

Source: Morningstar, Inc.

to ensure advisors act in the best interests of investors, though we also notice in certain markets there can be a difference between regulatory requirements and market practice, and the degree of enforcements can also vary.

One possible explanation for such differences can be the inherent conflicts of interests that occur when advisors or distributors receive payments for selling funds, and this is particularly the case when investors are not aware of these payments. The United Kingdom's Retail Distribution Review (RDR) program, Australia's Future of Fund Advice (FOFA) program, and the Netherlands' Financial Markets Amendment Decree all led to an outright ban in commission-based financial advice in recent years. From an investor's perspective, the greater transparency allows them to better delineate between the fees they pay for investment products and advice. These markets, however, represent the minority. We find that in 15 of the 25 markets, it is rare for investors to pay for advice outside of commission and expenses. That said, we are encouraged to see that financial advisors in most markets are required to disclose conflicts of interest.

Other conflicts of interest include the receipt of bonuses for increasing the general level of sales over a particular time period (thereby encouraging the churning of accounts), bonuses for selling a particular fund, and the encouragement from management to sell funds that come from the company that employs the advisor. Morningstar finds that these practices and sales contests are becoming less common, with 12 markets now prohibiting such practices compared with six in the last survey. The distribution landscape is an important consideration when it comes to assessing the accessibility of fund products for investors. We believe the best fund markets have multiple distribution channels that are widely available for investors, and that funds are typically sold through open-architecture platforms. This year's survey confirms that in 24 out of 25 markets, bank and insurance companies remain the most widely available distribution channel. In 22 of the 25 markets they are also one of the most dominant distribution channels—South Africa, the U.K., and the United States are the only markets where banks or insurance companies do not dominate the distribution of funds. Australia, Canada, New Zealand, and the U.K. are the only markets that feature independent advisors as a dominant distribution channel.

Interestingly, we see that the fund supermarket, or online brokerage, channel—which typically features an open-architecture platform with thousands of fund choices from multiple asset managers—is now widely available in all markets with the notable exception of New Zealand. The other popular distribution channels that are widely available within the majority of markets include independent advisors, traditional brokerage, and buying directly from the fund. It is also important to note that investors in most markets have access to at least three distribution channels.

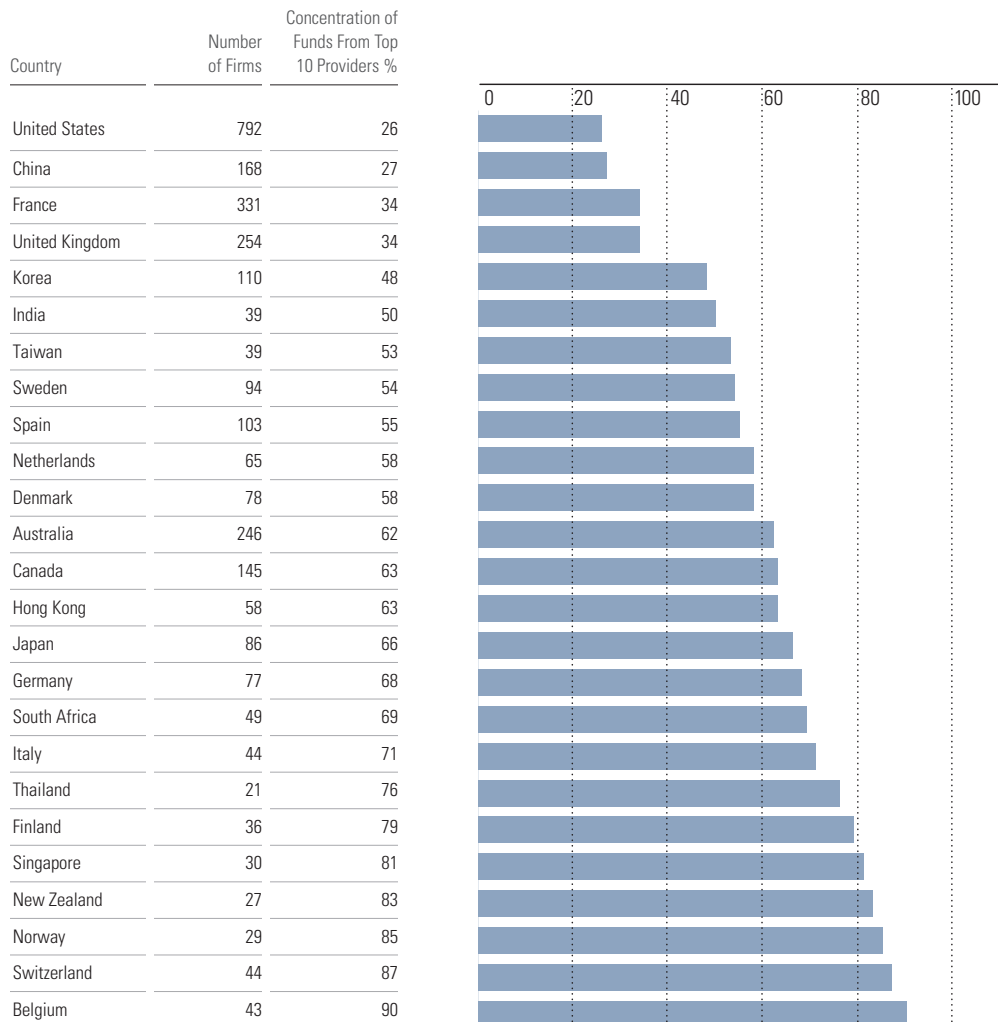
The greater adoption of technology and the growing popularity of online distribution platforms are conducive to the reduction in, or even the removal of, investment minimums in fund products. In this year's survey, only four markets (India, Italy, Spain, and Thailand) have strict investment minimums, though some of these minimums are very low. In 16 of the 25 markets, investment minimums exist but they are frequently waived or significantly reduced for investors who enroll in an automatic investment plan. For the remaining five markets, funds rarely have investment minimums.

In 15 of 25 markets, Morningstar estimates that more than 50% funds are sold through an open-architecture platform—a distribution system where investment options come from multiple fund companies. Like the last study, the same six markets – Belgium, Denmark, Finland, Norway, Spain, and Thailand—feature relatively narrow distribution with less than 20% of funds sold through open-architecture platforms. It is beyond the scope of this study to measure the degree of openness in open architecture; however, in Morningstar's experience, platforms available through banks and insurance companies tend to have fewer fund choices and a list that favours funds associated with the distributor. In contrast, fund supermarkets and independent advisors tend to offer large fund lineups.

When we seek to assess the relative openness of a market, we look to market concentration as an indicator. More-open markets tend to have more asset managers and less concentration, creating more choice for investors. As a proxy for this, we analysed the Morningstar database to count the number of firms offering mutual funds domiciled in each market and the number of funds offered by each firm. Then, we calculated the percentage of funds offered by the 10 largest firms. Before reviewing the numbers, there are two important points. First, the number of firms can include multiple names from the same parent but offered through different entities. This increases the numbers but not materially. Second, this is a count of funds, not assets, which tends to lower the percentage weightings presented. We will continue to develop this measure for future studies.

The U.S. is the largest market, and it also has the lowest concentration at 25.6%, meaning the top 10 firms offer 25.6% of the funds. China came a close second at 27.3%, followed by France at 33.8%, and the U.K. at 34.1%. At the other end of the scale, top 10 firms tend to dominate fund issuance in Belgium (90.1%), Switzerland (86.6%), and New Zealand (83.4%). The overall size of a market will influence the market share of the top 10 firms, and this, in part, is reflected in these numbers.

The growing popularity of exchange-traded funds led us to consider, for the first time, their accessibility in each of the 25 markets and how they are used in investors' portfolios. According to Morningstar's 2016 Global Asset Flows Report, exchanged-traded products reached \$3.6 trillion in

Exhibit 15 Market Concentration

Source: Morningstar, Inc.

assets at the end of 2016 after another year of strong inflows. Considering this rapid growth trajectory, it is not surprising to see that ETFs are widely available and marketed to investors and advisors in 18 out of 25 markets. In nine markets, ETFs cover a wide range of asset classes, from equities and bonds to REITs and commodities, and we expect this number to increase over time as ETFs become increasingly popular around the globe. China, New Zealand, Spain, and Sweden are the only markets where ETFs are typically used in one asset class only. Although investors in 14 markets tend to focus in locally listed ETFs, in smaller markets (Finland, Hong Kong, Japan, New Zealand, Norway, Sweden, and the Netherlands) where a comprehensive range of ETFs is unavailable locally, investors often access ETFs through a combination of local and foreign exchanges.

Country Summaries

Exhibit 16 Index of Countries

Country	Page # Summary	Detail	Overall Grade / Change		Regulation and Taxation		Disclosure		Fees and Expenses		Sales	
Australia	34	60	Above Average	↑	Bottom	=	Below Average	↑	Top	=	Top	↑
Belgium	35	67	Below Average	=	Average	=	Below Average	=	Bottom	↓	Bottom	↓
Canada	36	73	Average	=	Below Average	=	Above Average	=	Bottom	=	Average	↓
China	37	80	Average	↑	Average	=	Average	=	Below Average	↑	Average	↑
Denmark	38	86	Average	=	Average	=	Average	↓	Average	↓	Below Average	=
Finland	39	93	Below Average	↓	Average	=	Average	↓	Below Average	↓	Bottom	↓
France	40	99	Below Average	=	Average	=	Below Average	=	Below Average	↓	Below Average	↓
Germany	41	105	Average	=	Average	=	Average	=	Below Average	=	Above Average	=
Hong Kong	42	110	Average	↑	Average	↓	Average	↑	Below Average	↑	Above Average	=
India	43	116	Average	=	Average	=	Top	↑	Below Average	↓	Average	=
Italy	44	121	Below Average	=	Above Average	↑	Below Average	=	Below Average	=	Below Average	=
Japan	45	128	Average	↑	Average	↓	Below Average	=	Average	↑	Above Average	↑
Korea	46	135	Above Average	↓	Average	↓	Above Average	=	Average	↓	Above Average	=
Netherlands	47	135	Average	↓	Average	=	Below Average	↓	Top	=	Above Average	=
New Zealand	48	140	Average	=	Below Average	=	Average	=	Top	↑	Average	=
Norway	49	152	Average	=	Average	↓	Average	=	Average	=	Bottom	↓
Singapore	50	158	Average	↑	Above Average	=	Average	↑	Below Average	=	Above Average	=
South Africa	51	163	Above Average	↑	Above Average	↑	Average	↑	Above Average	=	Above Average	↑
Spain	52	170	Below Average	=	Average	=	Average	=	Below Average	↓	Bottom	↓
Sweden	53	175	Above Average	=	Average	=	Above Average	=	Top	↑	Below Average	=
Switzerland	54	182	Average	=	Average	=	Average	=	Average	=	Above Average	=
Taiwan	55	187	Average	↓	Average	=	Above Average	↓	Bottom	=	Above Average	=
Thailand	56	192	Above Average	↑	Average	=	Above Average	↑	Above Average	↑	Below Average	=
United Kingdom	57	197	Above Average	=	Average	↓	Average	=	Above Average	=	Above Average	=
United States	58	203	Top	=	Below Average	=	Top	=	Top	=	Average	=

Source: Morningstar, Inc.

Australia

Overall Grade

Above Average

Area	Grade
Regulation and Taxation	Bottom
Disclosure	Below Average
Fees and Expenses	Top
Sales	Top

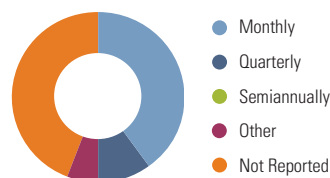
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 31

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.55	Fixed-Income	0.55
Equity	1.26	Equity	1.26
Allocation	0.90	Allocation	0.90

Sales

Funds Reporting Front Loads % 13

Australia's overall grade is Above Average, which is one step ahead of 2015 thanks to small improvements in the areas of Disclosure and Sales. Investors in Australia enjoy relatively lower costs and good sales practices. This is somewhat offset by the country's weak disclosure practices and high tax rates on investments.

Australia gets a Bottom grade in Regulation and Taxation. Investors in Australia suffer some of the highest investment taxes in the study. It is one of only a handful of countries in which capital gains are passed through to fund investors annually and assessed for tax purposes, rather than being deferred until units are sold. Fund governance structures are adequate, but there is no requirement for independents on fund boards. It is difficult to acquire funds from foreign jurisdictions in Australia.

Australia lags the global best practice on Disclosure, earning a Below Average grade. Australia is the last country in this study without any form of regulated portfolio disclosure. Proposed regulation that would lead to holdings disclosure for superannuation funds has been delayed, and there are no disclosure requirements for open-end funds on the horizon. Encouragingly, managers voluntarily provide Morningstar with portfolio data on approximately half the managed funds listed in our database, and there are a growing number moving toward full disclosure. Australia also trails other markets in disclosing portfolio manager names and any investments they have in the funds they run. Product disclosure statements explain investment risks, the underlying strategy, and investment fees by using monetary examples.

Australia's grade is Top with respect to Fees and Expenses. Funds are no longer permitted to charge front loads (entry fees) and ongoing expense ratios for allocation and fixed-interest funds are some of the lowest globally. Performance fees are allowed but are typically accompanied by high-water marks and clear disclosure around the relevant terms. Unlike most countries in this study, it is now a requirement for investors in Australia to pay for advice directly to an advisor. Many advisors still use asset-based fee models facilitated by administration platforms, but these costs are explicitly disclosed to the client, allowing for better transparency around advisory fees.

Australia's Sales practices are strong and earn a Top grade. Open-architecture platforms with funds from a variety of managers dominate fund sales in Australia. There is also a full variety of fund sales channels available to investors, including banks, independent financial advisors, online supermarkets, and directly from the asset manager. There is a fiduciary standard on advisors, requiring advisors to place investors' interests ahead of their own. This protection is stronger than that found in most of the world and has put an end to many previous sales incentives for advisors, including volume bonuses. A broad range of exchange-traded funds is widely available, with their use by advisors small but growing.

Belgium

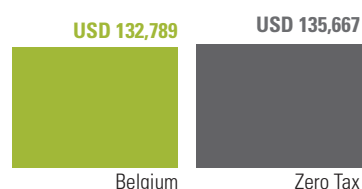
Overall Grade

Below Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Below Average
Fees and Expenses	Bottom
Sales	Bottom

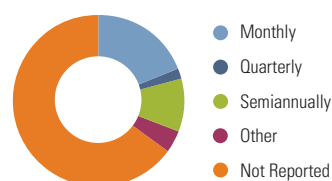
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 76

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	1.02	Fixed-Income	1.15
Equity	1.75	Equity	1.82
Allocation	1.61	Allocation	1.67

Sales

Funds Reporting Front Loads % 94

Belgium's overall grade is Below Average. Other than Regulation and Taxation, where it earns an Average, Belgium's grades are Below Average or Bottom in other areas.

Belgium's regulation and taxation practices are broadly in line with the norm, as it adheres to UCITS rules and other Pan-European regulations. Belgium's taxes on dividends and income are higher than average, but they are offset by an exemption on taxes for capital gains on shares held for over a year. Although there are some tax incentives when investing for retirement purposes, the fund options that qualify for tax incentives are limited.

Belgium's Disclosure grade is Below Average. Investors would be better served by more frequent portfolio disclosures. Currently, funds are required to disclose portfolio holdings on a semiannual basis, and only long positions are disclosed. Sixty-five percent of funds in Belgium do not report holdings to Morningstar, which is the worst among all the countries in this study. Most fund managers' names are now provided voluntarily, but another area for improvement is cost disclosures. While the simplified prospectus—the Key Investor Information Document (KIID)—contains an ongoing charge figure expressed in percentage terms, Belgium currently does not require a monetary illustration of fund costs that would allow novice investors to convert ratios into euro terms and easily see how much they are paying for services.

Belgium receives a Bottom grade for Fees and Expenses because of the high costs of locally domiciled and available-for-sale funds across the equity, allocation, and fixed-income categories. Morningstar has observed that most advisors in Belgium are compensated through asset-based commissions, either up front or through ongoing charges. It is important that investors have choices in how they compensate advisors, and it is especially important for investors to have the option of avoiding embedded ongoing charges. Unfortunately, it remains difficult for investors in Belgium to widely access funds that do not have embedded advice fees in a trailing or up-front commission basis.

Belgium receives a Bottom grade for Sales. As with other countries subject to pan-European regulations and guidelines, Belgium prohibits the practice of directed brokerage. However, a negative factor affecting the grade is the closed architecture of the Belgian market, since less than 20% of funds are sold through an open-architecture system. Banks and insurance companies dominate the sales of funds, and these companies tend to offer proprietary funds. Belgium also has the highest market concentration, with the 10 firms with the largest lineups accounting for more than 90% of the locally domiciled funds in the market.

Canada

Overall Grade

Average

Area	Grade
Regulation and Taxation	Below Average
Disclosure	Above Average
Fees and Expenses	Bottom
Sales	Average

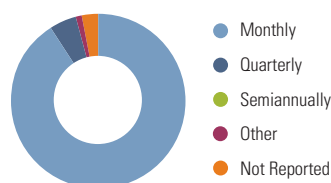
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 45

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	1.15	Fixed-Income	1.15
Equity	2.23	Equity	2.23
Allocation	2.02	Allocation	2.02

Sales

Funds Reporting Front Loads % 0

Canada's overall grade for its retail fund investor experience is Average. The country's disclosure rules for fund investors are strong, while sales practices are average. Less appealing are the fund costs, which are high when compared with other countries in this study.

In the field of Regulation and Taxation, Canada receives a Below Average grade. On the positive side, Canada offers a variety of tax-advantaged retirement plans that encourage long-term saving. For taxable accounts, Canada is one of just a few countries that require mutual funds to pass through realised capital gains annually. Also, unlike many countries in this study, investors in Canada pay full consumption (sales) taxes on asset-management services at the national and sometimes the provincial level. Mutual funds domiciled outside of Canada do not receive automatic registration in Canada and are rarely available to investors, as they are in many other countries.

Disclosure practices in Canada are Above Average. Although funds are required to publish full portfolio holdings only semiannually, 91% of portfolios are disclosed to Morningstar monthly, which is one of the highest percentages among countries in this study. The principal point-of-sale document, called Fund Facts, includes a variety of useful information on returns as well as the top 10 holdings. Funds have to report the names of fund managers, but only on an annual basis, so there can be a significant lag time before a manager departure or arrival is disclosed publicly, and reported manager tenures sometimes refer to when managers joined the firm in any capacity, not when they became a portfolio manager on a specific fund.

Canada scores poorly in Fees and Expenses, receiving a Bottom grade. Fund costs are high when compared with other countries in this study, with the median asset-weighted expense ratio for equity funds the highest in this report. While Canada does have funds with no trailer commissions, and correspondingly lower expense ratios, these represent a small part of retail investor assets. Funds are also permitted to charge performance fees with no offsetting fee reductions for underperformance; however, the terms of such fees are clearly disclosed. Unlike most other markets, front loads are not common in Canada.

Canada has an Average grade in Sales. A 2016 regulation requires Fund Facts, Canada's version of a simplified prospectus, to be distributed before sale rather than within two days after sale. Sales contests and directed brokerage are prohibited, but it is difficult to invest directly with a fund firm. Advisors do not have to adhere to a fiduciary standard, rather following a suitability standard that could allow them to sell a fund with a higher commission rather than one more appropriate for the client.

China

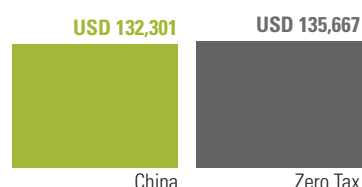
Overall Grade

Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Average
Fees and Expenses	Below Average
Sales	Average

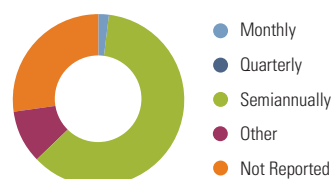
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 64

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.61	Fixed-Income	0.62
Equity	1.73	Equity	1.75
Allocation	1.76	Allocation	1.76

Sales

Funds Reporting Front Loads % 71

China's overall grade is Average, which is an improvement from our last study in 2015. China is in the middle of pack in terms of its Disclosure and Sales practices, as well as in Regulation and Taxation. The main drawbacks for Chinese fund investors are fees and restrictiveness.

China earns an Average grade for Regulation and Taxation. Positive steps have been taken to open the domestic capital market to foreign investors via Hong Kong, such as the Mainland-Hong Kong Mutual Recognition of Funds initiative, but most of these programs operate within quota restrictions. Funds domiciled in China need permission to invest overseas, and limits generally accompany this permission. The Chinese government offers tax-deferred savings schemes to encourage individuals to invest toward retirement through annuities. However, investors cannot choose the funds in their retirement schemes. In China, there are taxes on income distributions but not capital gains.

China's Disclosure practices are Average. Chinese funds produce quarterly reports, which include helpful discussions about fund performance. Fund managers' name and tenure, as well as their investment in the funds is also provided. Semiannual and annual reports publish full portfolio holdings for equity funds, but only the top five holdings for fixed-income funds. Such delineation in disclosure standards compares unfavourably with global practices and there is a notable lag of 60 to 90 days before such data is provided to Morningstar. Although the individual expense components are itemised, Chinese funds do not calculate standardised fund expense ratios, making it difficult for investors to compare total costs across funds effectively.

China receives a Below Average grade for Fees and Expenses. The Chinese fund market is dominated by locally domiciled funds, and their total expense ratios are higher than those in many other countries, particularly for equity and allocation funds. Sales loads are prevalent in China, with more than 70% of funds reporting a front load. These are negotiable for large investors only, although individual investors may be able to find funds sold at a discount through certain distribution channels, such as online. It is impossible for individual investors to pay for advice outside of commissions and expenses. Funds in China are not permitted to charge performance-based management fees.

Sales practices are mixed in China, and earn an Average grade. On the plus side, fund distribution in China is dominated by open-architecture platforms, and the local market offers a wide range of asset managers for investors to choose from. The use of incentives to motivate the sales of funds or to compensate advisors for selling funds is prohibited. On the flip side, advisors or distributors in China are only subject to suitability tests that require evidence of why they recommended a particular product, rather than fiduciary-duty tests. Moreover, advisors are not required to disclose conflicts of interest, such as being tied to a specific provider, when selling funds.

Denmark

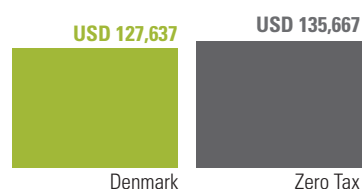
Overall Grade

Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Average
Fees and Expenses	Average
Sales	Below Average

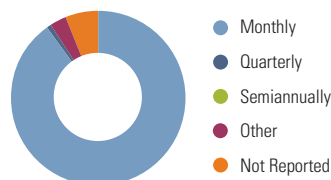
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 24

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.58	Fixed-Income	1.05
Equity	1.43	Equity	1.81
Allocation	0.99	Allocation	1.43

Sales

Funds Reporting Front Loads % 94

Denmark earns an overall grade of Average. Danish Regulation and Taxation policies are Average when compared with those of other countries in this study, as are Fees and Expenses, as well as Disclosure. Denmark scores Below Average on Sales.

Denmark has an Average grade for Regulation and Taxation. Investors in Denmark benefit from Pan-European regulations and guidelines. One example is the requirement within the Markets in Financial Instruments Directive (MiFID) that alternative brokerage arrangements (also known as soft-dollar arrangements) can only be used if they benefit the fund owners (rather than other purposes such as entertainment or general benefits to the management company).

Denmark has an Average grade for Disclosure. Denmark's disclosure meets all the Pan-European minimum standards, including providing the two-page Key Investor Information Document (KIID) for all funds and updating shareholder reports on a semiannual basis. One area in which Denmark-domiciled funds excel is in the voluntary disclosure of portfolio holdings to Morningstar. Most fund companies publish monthly portfolios, typically with reasonably quick turnaround times following portfolio month-end dates. Firms provide fund manager names and tenures to Morningstar despite no requirement for them to do so.

Denmark has an Average grade for Fees and Expenses. Regulations do not prevent asymmetrical performance fees (that is, charging performance fees with no offsetting reductions in fees for underperformance), and there is no requirement for the use of high-water marks or an appropriate hurdle. That said, this is also typical for other countries. Fund documents disclose the relevant terms of the performance fee so an investor can accurately estimate expense. Denmark has one of the highest percentage of funds that report a front load among the countries in this study. Moreover, it is difficult for investors to access funds with no loads or trailer commissions.

Denmark has a Below Average grade for Sales. The Danish fund market is characterised by closed architecture: Most funds are sold through the bank and insurance company channel, which offers products affiliated with the distributor. In general, it is hard for new fund companies without a close relationship to a bank to target and distribute to retail investors. Because of tax legislation and sales barriers, foreign fund companies are not easily and equally available in the local marketplace for retail investors. All these limit choices for investors. On a positive note, funds in Denmark rarely have investment minimums.

Finland

Overall Grade

Below Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Average
Fees and Expenses	Below Average
Sales	Bottom

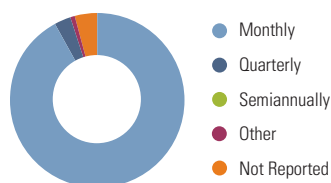
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 20

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.63	Fixed-Income	1.15
Equity	1.60	Equity	1.80
Allocation	1.22	Allocation	1.62

Sales

Funds Reporting Front Loads % 66

Finland receives a Below Average grade overall because of its Bottom grade in Sales and Below Average grade in Fees.

Finland's Regulation and Taxation grade is Average, reflecting general adherence to Undertakings for Collective Investments in Transferable Securities (UCITS) rules and Pan-European regulations, which will see a host of changes in 2018 as the Markets in Financial Instruments Directive II (MiFID) is implemented in laws and regulations. That said, while most regulations are in line with the norm, currently there is no mandatory disclosure of soft-dollar arrangements. While many countries covered in this report also allow for soft-dollar arrangements, this information is required to be disclosed.

Finland's Disclosure is also Average, reflecting its general conformity with Pan-European standards, including the use of the short-form Key Investor Information Document (KIID). Transparency of a fund's fees and distribution costs will become more detailed with MiFID II. While regulations require the disclosure of full portfolio holdings to the general public semiannually, a high percentage of funds provide this information on a monthly basis and in a timely fashion, including to Morningstar. Information about fund managers is also frequently provided, while managers' start dates or tenures are sometimes provided. Investors may request information about fund managers' investments in their own funds, but in practice this information is rarely asked for.

Finland's grade for Fees and Expenses is Below Average. Regulations do not prevent asymmetrical performance fees, where investors are charged only for outperformance without similar fee reductions in the case of underperformance, and there is no requirement for the use of high-water marks or an appropriate hurdle. That said, this is also typical of most countries in this report. There is a slow but sure trend toward waiving loads, with a major local cooperative banking group waiving loads for its member-owners, but the majority of players in the dominant bank channel still charge loads. Lastly, when purchasing funds without advice, it may be difficult for investors to easily buy funds with no loads/trailer commissions, as these do not exist in an open-end format.

Finland's Bottom grade for Sales is primarily due to a low percentage of funds being sold through an open-architecture system, leaving investors with a limited choice of funds. On a positive note, funds in Finland rarely have investment minimums, and advisors are not allowed to receive excess compensation for selling funds.

France

Overall Grade

Below Average

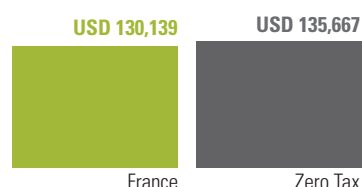
Area	Grade
Regulation and Taxation	Average
Disclosure	Below Average
Fees and Expenses	Below Average
Sales	Below Average

France's overall grade is Below Average, with below average disclosure and sales practices and relatively expensive fees weighing on its ranking.

France's Regulation and Taxation grade is Average. Pleasingly, soft-dollar arrangements are prohibited, discouraging potential conflicts of interest for funds. Other regulations are in line with the norm, as France adheres to UCITS rules and other Pan-European regulations.

Regulation and Taxation

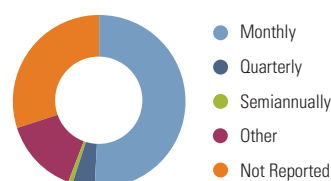
Growth of USD 100,000



France fares poorly in Disclosure, with a Below Average grade. Full holdings are only available in the annual report, which, although available for fund investors and the regulator, it is not always available to the public. In contrast, most countries in this report adhere to the norm of providing full public disclosure of holdings at least semiannually. In practice, more than half of French funds voluntarily provide monthly portfolios to Morningstar. As with other countries in the European Union, France requires funds to provide a Key Investor Information Document (KIID). The KIID does well in some areas, such as providing a clear explanation of risks, disclosing returns for standardised periods, and adhering to the required maximum length of two pages. However, the KIID does lack potentially helpful information, such as a monetary illustration of fees and manager names and tenures.

Disclosure

Portfolio Holdings Disclosure Frequency %



France has a Below Average grade for Fees and Expenses. Investors typically pay financial-advice fees through commissions or retrocessions. Funds without trailers are available in France but constitute only a small part of investor assets. Funds without front loads are widely available, but most carry retrocessions to compensate for advice. Additionally, France follows common practice in allowing funds to charge performance fees without an offsetting reduction for underperformance. Furthermore, the terms of the performance fees are not always clearly disclosed in fund documents.

Average Portfolio Release Lag (Days) 83

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.76	Fixed-Income	1.05
Equity	1.76	Equity	1.80
Allocation	1.61	Allocation	1.67

France's Sales grade is Below Average. As with other countries subject to Pan-European regulations and guidelines, France prohibits the practice of directed brokerage. Unfortunately, advisors receiving excess compensation for selling specific funds to investors is a common practice through kick-off commissions. The French market is dominated by a somewhat limited mix of distribution channels.

Sales

Funds Reporting Front Loads % 88

Germany

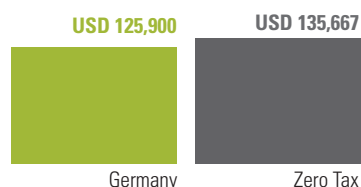
Overall Grade

Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Average
Fees and Expenses	Below Average
Sales	Above Average

Regulation and Taxation

Growth of USD 100,000



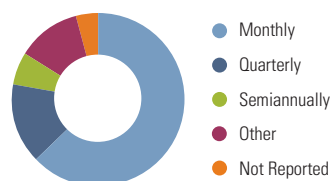
Germany's overall grade is Average. It earns grades of Average or Above Average in most areas, with the exception of Fees, which is Below Average.

Germany's Average grade for Regulation and Taxation reflects its general adherence to Pan-European regulations. Following the general practice of most European countries, soft-dollar arrangements (with the caveat that they must be disclosed) are allowed in Germany. An area of possible improvement for Germany is its taxation policies. While there are tax incentives to invest for retirement, the choices for these investments are limited and not as varied as options without tax incentives.

Germany scores similarly in Disclosure, with an Average grade that also partly reflects typical Pan-European practices and the use of the Key Investor Information Document (KIID). As with most countries in the study, funds in Germany are required to disclose holdings semiannually, but in practice nearly 80% voluntarily disclose monthly. Pleasingly, fund companies also quite commonly report portfolio manager names.

Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 68

Germany's Fees and Expenses grade is Below Average. Investors typically pay financial-advice fees through commissions or retrocessions. Funds without trailers are available in Germany but constitute only a small part of investor assets. Additionally, Germany follows the common though investor-unfriendly practice of allowing funds to charge performance fees without an offsetting reduction for underperformance. That said, the overall structure of performance fees has improved with provisions such as loss carryforwards enacted via rounds of legislative improvements in recent years.

Germany's Sales grade is Above Average. Germany prohibits advisors from receiving excess compensation for selling specific funds, and regulatory standards appear to have improved the quality of advice in the market. However, less than 50% of funds in Germany are sold through an open-architecture system, which limits choices for investors.

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.72	Fixed-Income	1.03
Equity	1.46	Equity	1.77
Allocation	1.65	Allocation	1.73

Sales

Funds Reporting Front Loads % 89

Hong Kong

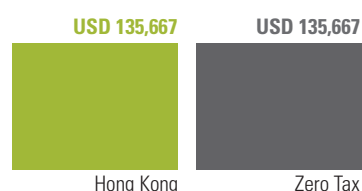
Overall Grade

Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Average
Fees and Expenses	Below Average
Sales	Above Average

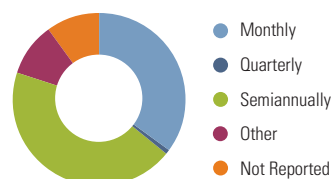
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 113

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	1.14	Fixed-Income	1.42
Equity	1.72	Equity	1.89
Allocation	1.41	Allocation	1.67

Sales

Funds Reporting Front Loads % 86

Hong Kong's overall Average grade is an improvement from our last study. The absence of virtually any taxes on fund investments is a big plus. However, Hong Kong has average disclosure practices and above-average investment costs.

Hong Kong receives an Average grade for Regulation and Taxation. Hong Kong is one of the few countries in our study that have virtually nonexistent taxes on fund investments. Hong Kong's fund industry is governed by multiple regulators that work closely together in areas of mutual interest. UCITS funds or other foreign-domiciled funds must separately register in Hong Kong, though regulatory approval is often easily obtained and such funds are broadly distributed in the local market. Hong Kong does have regulations to increase retirement savings; however, the scope of investment options available within these schemes is more limited, and there are no specific tax incentives to invest for retirement purposes.

Hong Kong's Disclosure is in the middle of the pack, and earns an Average grade. There are some good practices, such as its Product Key Fact Statement, which provides point-of-sale information to investors in a concise manner, including past performance figures and standardised reporting on ongoing charges. Hong Kong's disclosure is closer to the norm in other areas such as portfolio holdings, which are disclosed on a semiannual basis. There are still a few areas that could be improved. For example, funds are not required to publish a section of management's discussion of fund performance, and Hong Kong fund documents also provide little information about managers.

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

Hong Kong earns an Above Average grade for Sales. Over 80% of funds are sold through an open-architecture system, and investors must receive a prospectus prior to the purchase of a fund. Advisors are required to disclose conflicts of interests, and directed brokerage is unheard of in Hong Kong. Furthermore, the Securities and Futures Commission plans to introduce a set of specific guidelines to regulate investment services provided via online platforms, including robo-advice. We believe this is a positive development as the regulator seeks to keep up with industry developments.

India

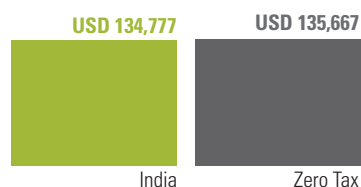
Overall Grade

Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Top
Fees and Expenses	Below Average
Sales	Average

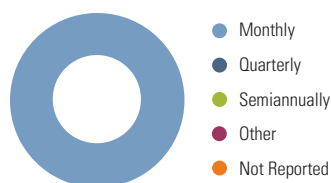
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 11

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.71	Fixed-Income	0.70
Equity	2.22	Equity	2.22
Allocation	2.03	Allocation	2.03

Sales

Funds Reporting Front Loads % 0

India has retained an overall grade of Average and now leads most markets in terms of Disclosure practices. The Below Average grade in Fees and Expenses is a function of the higher expense ratios in India, which in turn reflect the more limited economies of scale at present.

India receives an Average grade in Regulation and Taxation. India matches global best practices in many areas of regulation, with recent changes requiring that the use soft-dollar arrangements be purely for the benefit of fund investors an example of this. Funds must have supervisory boards with independent representatives, regulatory sanctions are published, and controls on fund advertising are all positives. India is one of only a handful of countries in this study that continue to have capital controls limiting the amount funds can invest in foreign securities. The tax system provides incentives for fund investing, including the deferral of capital gains tax until units are sold.

Disclosure in India earns a Top grade. Transparency of portfolio holdings remains the best of any market, with monthly disclosure required and those portfolios typically released after 10 days. It is now mandatory for asset managers to disclose fund manager compensation levels as well as manager investments in their funds. Regulations have also been introduced requiring the disclosure of commissions earned by distributors. Point-of-sale documents include details around fund risks, but our analysts observe that the descriptions of investment strategies are often insufficient.

India's Fees and Expenses grade of Below Average reflects some of the highest expense ratios for equity and allocation funds in the study and the reliance of ongoing trailing commissions to pay for advice. While these elements fall behind global best practices, the situation is not unusual given the developing nature of the Indian fund market and the impact this has on scale and distribution. Indian investors do not pay front loads when acquiring funds, and the expense ratios for fixed-income funds are globally competitive. India also prohibits funds from charging performance fees, which removes issues around the structuring and disclosure of such fees.

Sales practices in India receive an Average grade. Our analysts believe the quality of advice has improved through a range of initiatives, starting with the Investment Advisory Regulations in 2013 and more-recent moves to place caps on the level of commissions paid by product providers.

Those registered as "investment advisors" must follow a "suitability" standard when dealing with clients. This does not apply to the more common "distributor" designation. Both must disclose conflicts of interest to clients. Investors in India can choose from a variety of different distribution channels, and more than 50% of funds are sold through an open-architecture system—this percentage has fallen as direct sales increase. Exchange-traded funds are available in India, but they have attracted only limited use by advisors.

Italy

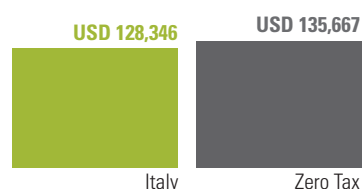
Overall Grade

Below Average

Area	Grade
Regulation and Taxation	Above Average
Disclosure	Below Average
Fees and Expenses	Below Average
Sales	Below Average

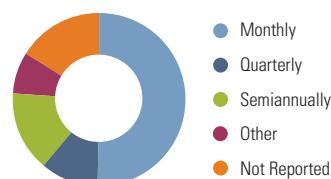
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 90

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	1.12	Fixed-Income	1.17
Equity	2.07	Equity	1.85
Allocation	1.56	Allocation	1.69

Sales

Funds Reporting Front Loads % 40

Italy receives a grade of Below Average, posting Below Average grades in most areas, with the exception of Regulation and Taxation, which is Above Average.

Italy's grade is Above Average for Regulation and Taxation. Investment income is taxed at rates distinct from other types of income, and lower rates apply to "White List" government-bond holdings. Also, recent regulatory changes allow fund investors access to accumulation share classes, which defer taxes on capital gains and income until the investor liquidates shares. Other regulations are in line with the norm, as Italy adheres to UCITS rules and other Pan-European regulations.

Italy's Disclosure is Below Average. Italian funds are required to only partially disclose portfolio holdings, providing material positions in the portfolio semiannually. However, Italy meets all of the Pan-European minimum standards, including the provision of the two-page Key Investor Information Document (KIID) for all funds, as well as updating shareholder reports on a semiannual basis. Although not required, Italian funds disclose manager names more than 75% of the time, but manager investment in fund shares is not provided.

Italy receives a Below Average grade for Fees and Expenses, reflecting the high costs on average of locally domiciled fixed-income and equity funds. Following the common though investor-unfriendly practice in most of the countries surveyed, Italy allows funds to charge performance fees with no offsetting fee reduction for underperformance, though it requires funds to disclose the terms of the fee in fund documents.

Italy receives a Below Average grade for Sales. Italy is compliant with all relevant Markets in Financial Instruments Directive (MiFID) regulations, which help prevent many sales abuses. However, advisors unattached to large financial institutions and direct purchases from the fund company remain rare. The Italian market is also dominated by a somewhat limited mix of distribution channels.

Japan

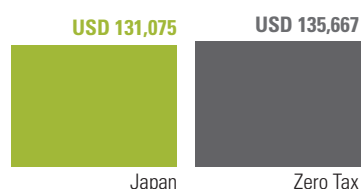
Overall Grade

Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Below Average
Fees and Expenses	Average
Sales	Above Average

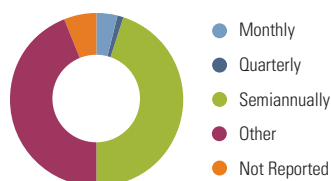
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 101

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	1.35	Fixed-Income	1.35
Equity	1.64	Equity	1.38
Allocation	1.45	Allocation	1.45

Sales

Funds Reporting Front Loads % 78

Japan's overall grade is Average. Japan's Regulation and Taxation policies and Fees are Average. Disclosure requirements are Below Average relative to other countries in this study. Sales practices improved to Above Average, partly because of the expanding distribution options available to Japanese investors.

Japan's Regulation and Taxation policies currently represent a mixed bag for investors, resulting in an Average grade. Improvements in regulation are on the horizon with Japan's Financial Services Agency (FSA) outlining key Principals for Consumer Oriented Business Conduct, the establishment of which represents a step forward in reinforcing consumer safeguards and should help move the industry toward a more investor-driven culture. However, the FSA does not have true enforcement power with regard to the principles; market-based competitive pressure will be the bigger driver of firms' commitments to investors. Established in December 2016, the principles call for all financial instruments business operators to implement customer-oriented business policies, manage conflicts of interest, and provide more detailed disclosure in an easy-to-understand manner. Firms and advisors are also expected to tailor products and services to customers' individual financial situations and properly train and incentivize employees to act in the best interests of customers.

The principles should lead to more clear and complete disclosure going forward, but these anticipated improvements do not factor into the current Below Average grade for Disclosure. Japan's simplified prospectus remains a bit long and cumbersome for the typical investor and still skips over a discussion of fund-specific risks in most cases. Lacking as well is a straightforward explanation of fees in either percentage terms or as a monetary schedule. Fund companies rarely provide information about a fund's portfolio managers.

While Japanese investors often pay commissions via loads at the time of purchase, the Fees and Expenses grade in this year's study improves to Average. Asset-weighted median fees ticked down in several cases, and the growing availability of no-load, no-trailer channels via Internet distributors as well as through traditional banks and brokerages was also important. The FSA has discouraged high-turnover, commission-driven business and promoted fee- and consulting-based services for long-term investments.

Japan receives an Above Average grade for Sales. Most funds in Japan are sold through open-architecture platforms, with distributors following a suitability standard in recommending funds. Investors must receive a prospectus before purchasing a fund. Advisors are required to disclose conflicts of interest, such as being tied to a specific provider.

Korea

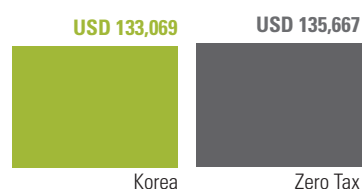
Overall Grade

Above Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Above Average
Fees and Expenses	Average
Sales	Above Average

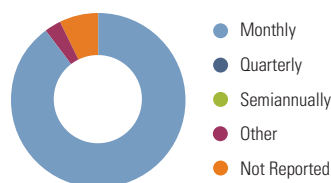
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 61

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.56	Fixed-Income	1.39
Equity	1.63	Equity	1.89
Allocation	1.05	Allocation	1.24

Sales

Funds Reporting Front Loads % 85

Korea earns an overall grade of Above Average, which is one notch down from its top position in our previous study. Korea continues to exhibit a number of desirable traits, such as Above Average grades for its Disclosure and Sales practices. However, fund costs in Korea are middling, and there are some areas that can be improved on, including holdings disclosure to the public.

Korea receives an Average grade for Regulation and Taxation. Korea has one of the more favourable tax policies in the study, with no capital gains taxes on fund investments, although a dividend tax exists. Soft-dollar arrangements are common in Korea, and there is no mandatory disclosure. That said, the Korean regulator issues best-practices guidance, and fund houses often have internal rules regarding soft dollars. Tax benefits have been on the rise for Individual Retirement Pension, one of the three pension programs in Korea. However, investment choices are limited for retirement.

Disclosure practices are strong in Korea and receive an Above Average grade. A key feature is the monetary illustration of fees, a rare practice among the countries in our study. This is provided in conjunction with current and historic expense ratios, allowing investors to better assess their fund costs. Quarterly reports are required in Korea, which typically include commentary on fund performance. Information regarding portfolio managers' names and tenures can be found in the simplified document. Korea can further improve by providing full holdings to the public every quarter, rather than its current practice of only providing the top 10 holdings.

Korea is in the middle of the pack when it comes to Fees and Expenses, earning an Average grade. A high percentage of funds sold in Korea report charging front loads, and investors predominantly pay for advice through front loads or fees embedded in expense ratios. Foreign-domiciled equity funds are expensive in Korea, while locally domiciled fixed-income and allocation funds tend to have lower annual expense ratios than those in other countries. Since our last report, retail funds are now permitted to charge asymmetrical performance fees without high-water marks or the use of appropriate hurdles.

Sales practices in Korea are commendable and earn an Above Average grade. Morningstar estimates over 80% of funds in Korea are sold through an open-architecture system. Most funds in Korea do not require an investment minimum, although it is common for distributors to impose their own minimum requirements. The online fund supermarket currently accounts for a small portion of the market. Korea's Financial Services Commission has plans to introduce independent financial advisors, which may have implications on the advisory services and fees that Korean investors are subject to in the future.

Netherlands

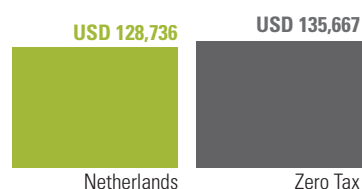
Overall Grade

Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Below Average
Fees and Expenses	Top
Sales	Above Average

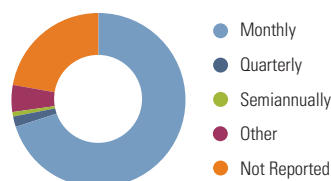
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 57

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.75	Fixed-Income	1.10
Equity	0.67	Equity	1.73
Allocation	0.99	Allocation	1.62

Sales

Funds Reporting Front Loads % 45

The Netherlands earns an overall grade of Average. While the country's investor-friendly ban on retrocessions reflects positively in its Top grade for Fees and Expenses, areas like Disclosure, with a Below Average grade, allow room for improvement.

Similar to the several European Union member countries in the study, all Dutch regulations comply with the Markets in Financial Instruments Directive (MiFID), the Undertakings for Collective Investments in Transferable Securities (UCITS) directive, the Pan-European Alternative Investment Fund Managers Directive (AIFMD), and all other EU directives on funds. Dutch funds are mandated to have a supervisory board of directors, given their typical structure as a limited liability company. However, there is no requirement of director independence. Dutch investors are subject to a wealth tax, the structure of which is considered similar to paying taxes on dividends and realised and unrealised capital gains annually. Investment advisory fees, whether embedded or paid to an independent advisor, are subject to a value-added tax. Overall, Regulation and Taxation gets an Average grade in the Netherlands.

Disclosure in the Netherlands is Below Average. The Netherlands uses the Key Investor Information Document (KIID) summary prospectus, which contains a section describing the strategy and objective of the fund, but it is often vague. The KIID does present risks clearly in narrative form and provides a risk/reward score according to a standardised scale. The KIID does not contain a monetary illustration of fees or disclosure of trading costs. While some manager information is provided, the bigger shortcoming is Netherlands' lack of complete and timely holdings disclosure relative to other countries. Over 20% of Dutch funds do not report holdings to Morningstar. The Netherlands does not have a website with a centralised electronic repository of fund documents.

Fees and Expenses again receive a Top grade, having greatly improved following a ban on rebates to advisors that took effect at the beginning of 2014. These commission-free share classes rank as among the lowest of all the countries in this report. Foreign funds, however, tend to be much more expensive than local funds. The country's ban on sales loads also contributes positively to this grade.

Sales practices receive an Above Average grade. MiFID regulations prevent the most egregious sales practices from happening in EU member countries. Advisors in the Netherlands are subject to the suitability requirements in MiFID as well as the duty-of-care standard outlined by the Netherlands Authority for the Financial Markets. We believe that these guidelines have improved the quality of advice in the market.

New Zealand

Overall Grade

Average

Area	Grade
Regulation and Taxation	Below Average
Disclosure	Average
Fees and Expenses	Top
Sales	Average

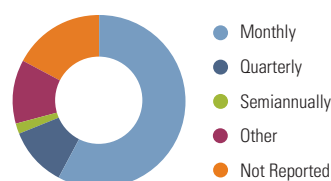
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 37

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.90	Fixed-Income	0.90
Equity	1.38	Equity	1.38
Allocation	1.21	Allocation	1.21

Sales

Funds Reporting Front Loads % 37

New Zealand has retained an overall grade of Average, with its Fees and Expenses grade improving to Top. While the Disclosure grade remains at Average, there has been further improvement since the 2015 study. Implementation of the Financial Markets Conduct Act (FMC Act) has been completed, with attention now on significant proposed changes to the Financial Advisors Act.

New Zealand receives a Below Average grade for Regulation and Taxation. While New Zealand has a robust regulatory framework, there are a number of areas that trail best practices, including limited restrictions on the use of soft dollars, the lack of supervisory boards for funds, and the regulation of fund advertising is not as comprehensive as other markets. New Zealand's tax structure can be quite complex on the surface because fund companies assess taxes on distributions prior to disbursing them to the investor. In the end, however, the total tax burden for New Zealand fund investors is relatively low; the absence of most capital gains greatly reduces investors' tax burdens.

New Zealand has introduced a number of new disclosure initiatives since 2013, which now sees it placed equal with many countries in this study. Portfolio holdings disclosure coverage has increased markedly since 2015 as has the number of funds providing holdings on a monthly basis. The naming of portfolio managers and their tenures in fund literature is another positive step. A short-form Product Disclosure Statement (PDS) and an even shorter-form Key Information Document (KID) have strict word limits and are designed to allow investors to quickly identify important characteristics of funds. However, the length of these documents is still longer than other markets, and the language, while simpler in nature is not consistently so.

New Zealand's improved Top grade in Fees and Expenses represents a number of positive trends. It is increasingly easy to buy funds with no loads or trailer commissions when purchasing funds without advice. Payment for advice is increasingly being done directly as opposed to through fund commissions, and the use of front loads on funds is decreasing. Costs for locally domiciled equity and allocation funds are below the global average. Domestic fixed-income funds are more expensive than peers. As with many markets New Zealand funds can charge asymmetrical performance fees, and our analysts note that disclosure of these fees in fund documents could be clearer.

New Zealand gets an Average grade in Sales. Investors have a full spectrum of sales channels through which they can purchase funds, and the dominant sales channel is characterised by broadly open architecture. However, the market is dominated by a number of larger managers, with the top 10 offering over 75% of the available funds. While a fiduciary test exists, there are a range of distinctions and waivers that dilute the impact of the standard. However, our analysts do observe an improvement in the quality of advice.

Norway

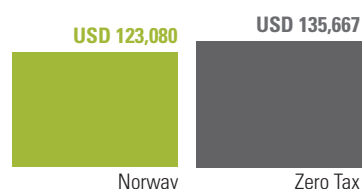
Overall Grade

Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Average
Fees and Expenses	Average
Sales	Bottom

Regulation and Taxation

Growth of USD 100,000



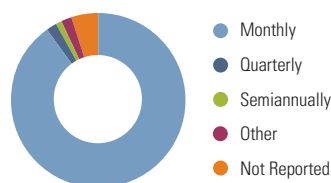
Norway's overall grade is Average. Norwegian investors face some fairly negative issues like relatively high taxes, particularly on the equity funds, but also some more-positive experiences like access to timely portfolios. Sales are also a weak area for Norway.

Norway gets an Average grade for Regulation and Taxation despite taxes that take a big bite out of returns. High tax rates result in lower aftertax returns, and Norway also charges additional wealth taxes, though these rates have recently come down while exemptions have gone up. In addition, investors are also required to pay taxes on dividends, which have increased in the case of equity funds. But investors can manage the timing of their taxes, which can be deferred indefinitely until the sale of fund shares.

Norway's Disclosure grade is Average and could be improved upon, but there are bright spots here, too. Norway ranks among the leaders in this study for timely portfolio disclosure on a monthly basis with little lag in reporting, a best practice. There is room for improvement in terms of portfolio manager information, as not all firms disclose manager names publicly.

Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 18

Fees and Expenses are a bit of a mixed bag, earning an Average grade. Excluding Alternative Investment Fund Managers Directive (AIFMD) funds, Norwegian funds are only permitted to charge fulcrum performance fees, which penalise underperformance proportionately to rewarding outperformance. Morningstar considers this practice to be fairer to the investor than simply charging extra fees for outperformance, which is the case for most countries in this study that allow performance fees. Annual expense ratios for funds available to investors in Norway range from high for equity funds to low for locally domiciled fixed-income funds.

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.50	Fixed-Income	1.19
Equity	1.50	Equity	1.81
Allocation	1.04	Allocation	1.62

Norway's Sales grade is Bottom. Norwegian fund companies, mostly insurance firms and banks, tend to offer only in-house funds. Morningstar estimates that less than a fourth of fund sales are through companies offering open architecture. This limits the ability of investors in Norway to choose from a wide variety of funds.

Sales

Funds Reporting Front Loads % 60

Singapore

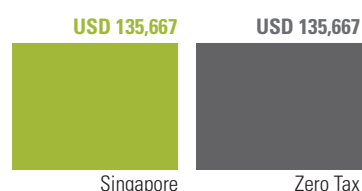
Overall Grade

Average

Area	Grade
Regulation and Taxation	Above Average
Disclosure	Average
Fees and Expenses	Below Average
Sales	Above Average

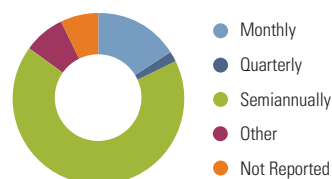
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 107

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.88	Fixed-Income	1.40
Equity	1.74	Equity	1.89
Allocation	1.43	Allocation	1.69

Sales

Funds Reporting Front Loads % 94

Singapore's overall grade is Average. Singapore scores well in regulation and taxation and sales, but it is one of the more expensive markets when it comes to fund costs. There is also room for improvement in terms of its disclosure practices.

Singapore receives an Above Average grade for Regulation and Taxation. Fund investors are generally exempt from all investment taxes in Singapore, which is a feature shared by few other markets. That said, fund management services in Singapore are subject to the goods and services tax. Funds registered in compliance with UCITS receive streamlined registration, and foreign-domiciled funds are common in Singapore. The Central Provident Fund (CPF), Singapore's mandatory retirement savings scheme, offers many investment choices. The Supplementary Retirement Scheme further encourages individuals to save by offering tax benefits at the income level. Moreover, the CPF is working to introduce a new retirement scheme that involves low-cost, passive investment options.

Singapore earns an Average grade for Disclosure. A Product Highlight Sheet (PHS) and a fact sheet constitute a simplified prospectus in Singapore, in which only the latter contains returns, and not necessarily in the form of standardised periods. The names and professional histories of portfolio managers are required, though information on their compensation or investments along investors is not disclosed. There is no requirement for management commentary on fund performance, although it can usually be found in marketing material. On a positive note, the Monetary Authority of Singapore is taking steps to standardise the disclosure format of trailer fees in the PHS.

Singapore's Fees and Expenses grade is Below Average. Investors in Singapore continue to pay for advice predominantly through front loads or ongoing expenses embedded in expense ratios. It is rare for investors to be able to avoid these fees, and this leads to a low level of transparency around the cost of advice. Domestic funds tend to be cheaper than those available for sale from foreign jurisdictions, although both groups show higher fees than the medians for this study.

Sales is another strong area for Singapore, and it receives an Above Average grade. Most distribution options are widely available, and Morningstar observes that more than 80% of funds are sold through intermediaries offering funds from multiple providers. Advisors are required to disclose conflicts of interest, such as being tied to a specific provider. There have been some positive developments since our last report, such as the use of a "balance scorecard" to regulate the remuneration of financial advisory representatives, rather than relying on pure sales measures.

South Africa

Overall Grade

Above Average

Area	Grade
Regulation and Taxation	Above Average
Disclosure	Average
Fees and Expenses	Above Average
Sales	Above Average

Regulation and Taxation

Growth of USD 100,000

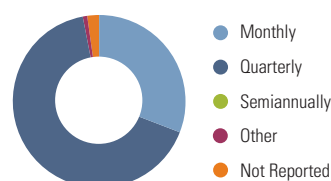


South Africa's overall grade is Above Average. That is a marked advance over its showing in the 2015 study, and the country's improvement extended across all four of the areas measured: Regulation and Taxation, Fees and Expenses, Disclosure, and Sales.

Regulation and Taxation showed clear improvement, and South Africa receives an Above Average grade. The Minimum Disclosure Document, introduced in 2015, has now been fully implemented, and its short length and amount of information are more helpful to investors than the previous document. South Africa offers three types of tax-advantaged retirement funds (as well as tax-free nonretirement plans) that encourage long-term saving. And an important change under way will replace the current regulator with the Financial Services Conduct Authority. The goal is to improve consistency by creating a single authority with oversight over a wider range of activities, which can thus offer a more proactive approach. On the negative side, capital controls remain in place that limit funds from investing more than a certain percentage of assets in foreign securities, which reduces the choices available to South African fund investors.

Disclosure

Portfolio Holdings Disclosure Frequency %



Disclosure practices in South Africa are Average. With the implementation of the Minimum Disclosure Document, amounts and types of fees were made clearer, with standardised, detailed representations of fund charges. However, funds still are not required to publish information on portfolio managers; nearly all funds do produce a fact sheet with the manager's name, but it does not have any information on tenure or compensation structure. Another negative is that South Africa does not have a central website where investors can find all fund documents.

Average Portfolio Release Lag (Days) 39

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.86	Fixed-Income	0.87
Equity	1.43	Equity	1.83
Allocation	1.61	Allocation	1.61

South Africa earns an Above Average grade for Fees and Expenses. Funds without loads or trailer commissions are widely available and constitute a large part of retail investors' assets. One less-appealing practice is that, with proper disclosure of the terms, funds are allowed to charge asymmetrical performance fees that reward managers for outperformance only. This practice is common in many countries in this study, but unlike many other countries, it is used frequently in South Africa. A new regulation went into effect at the beginning of 2017, laying out guidance for acceptable practices for performance fees, but it only provides broad guidelines.

Sales

Funds Reporting Front Loads % 29

South Africa's sales practices are also Above Average. No single channel dominates sales. Banks, insurance companies, fund supermarkets, brokerage houses, and independent advisors are all widely available, and investors can also buy directly from funds. Regulations require advisors to serve clients honestly and fairly, act in the interests of clients, and uphold the integrity of the industry.

Spain

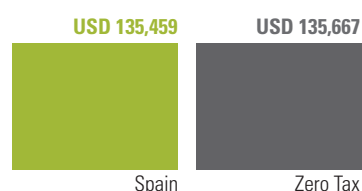
Overall Grade

Below Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Average
Fees and Expenses	Below Average
Sales	Bottom

Regulation and Taxation

Growth of USD 100,000



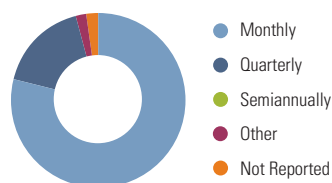
Spain's overall grade is Below Average. Its Average grades in Regulation and Taxation and Disclosure are bright spots, with Fees and Expenses and Sales faring much worse.

Spain's Regulation and Taxation grade is Average. Through the Undertakings for Collective Investments in Transferable Securities (UCITS), investors in Spain have access to funds domiciled in a variety of countries. Soft-dollar arrangements are also required to be disclosed, and Pan-European guidelines and regulations require soft dollars to be used for research. Investors in Spain who are saving for retirement, however, invest through a separate pension system, where choices are more limited and the benefits of UCITS regulations do not apply. Tax incentives and the availability of exemptions or deferrals in certain situations give fund investors a large tax break.

Spain's Disclosure grade is Average. It has good disclosure practices for portfolio holdings, requiring funds to disclose holdings on a quarterly basis, not the semiannual frequency that is the more common practice. Nearly 80% of funds exceed the regulatory requirement and report portfolios on a monthly basis. Spain meets all of the Pan-European minimum standards, including the provision of the two-page Key Investor Information Document (KIID) for all funds.

Disclosure

Portfolio Holdings Disclosure Frequency %



Fees and Expenses compare less favourably with other countries, and Spain receives a Below Average grade in this area. Funds without trailers are available in Spain but constitute only a small part of investor assets. The slightly lower-than-average expense ratios for fixed-income funds have not been enough to compensate for the relatively higher expense ratios for equity and allocation funds. Spain allows funds to charge performance fees without making an offsetting reduction in fees for underperformance.

Average Portfolio Release Lag (Days) 46

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.40	Fixed-Income 1.15
Equity	2.00	Equity 1.84
Allocation	1.12	Allocation 1.70

Spain receives a Bottom grade for its Sales practices. Spain is compliant with all relevant Markets in Financial Instruments Directive (MiFID) regulations, which help prevent many sales abuses. However, less than 20% of the funds sold in Spain are sold through an open-architecture system, which is much lower than other countries in this study. Also, advisors receiving excess compensation for selling specific funds to investors is a common practice through kick-off commissions.

Sales

Funds Reporting Front Loads % 11

Sweden

Overall Grade

Above Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Above Average
Fees and Expenses	Top
Sales	Below Average

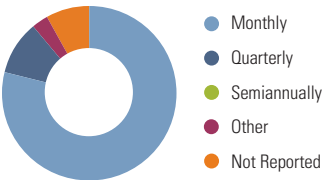
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 17

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.47	Fixed-Income	1.03
Equity	1.23	Equity	1.60
Allocation	0.96	Allocation	1.43

Sales

Funds Reporting Front Loads % 9

Sweden’s overall grade is Above Average and sits squarely in the top half of this study, with solid grades across most areas. Disclosure practices are strong, and fees and expenses for investors in Sweden also contribute positively. Although rules exist to allow fund investors to defer taxation, tax rates are among the most expensive.

Sweden receives an Average grade for Regulation and Taxation, mainly because its investors pay some of the highest taxes of any investors in this study. Despite certain advantages, such as the deferral of capital gains taxation until the liquidation of fund shares, the high tax rates eat into Swedish investors’ returns significantly. Sweden could also improve regulations by introducing additional independence into the governance structure of funds.

Sweden’s Disclosure grade is Above Average, but there is room for improvement. The Key Investor Information Document (KIID), which is required for all funds in Sweden, has many good features but is lacking in others. Since its switch to the KIID from the previous simplified prospectus, Sweden no longer requires funds to include a monetary illustration of fees—converting ratios into actual monetary amounts. More positively, Sweden, unlike many countries, requires the disclosure of portfolio managers’ names, with their tenures often included. Portfolio holdings disclosure practices are also strong, with information provided monthly for nearly 80% of the funds (against a quarterly regulatory requirement) and data received within a month of period-end.

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

Sweden’s weakest area is Sales, which earns a Below Average grade. Investors in Sweden typically purchase funds through banks and insurance companies, an increasing number of which have started offering external funds. We now estimate that open-architecture distribution sales channels are used more than half the time. A number of sales practices could also be strengthened, including the fiduciary duty of an advisor to the investor, better disclosure of conflicts of interest, and controls over advisor remuneration structures.

Switzerland

Overall Grade

Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Average
Fees and Expenses	Average
Sales	Above Average

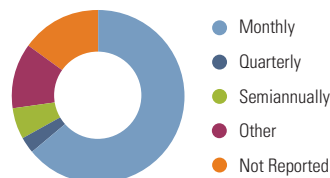
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 84

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.15	Fixed-Income	1.06
Equity	0.37	Equity	1.70
Allocation	1.27	Allocation	1.62

Sales

Funds Reporting Front Loads % 89

Switzerland retains an overall grade of Average, with a number of improvements since the last survey. Sales practices receive an Above Average grade, with more advisors looking at an investors' entire financial situation rather than simply selling them a favoured fund. The country has been updating regulations to keep them in line with current and prospective European Union rules. However, some of Switzerland's disclosure practices are subpar, and fees are average.

In the field of Regulation and Taxation, Switzerland receives an Average grade. Although Switzerland is not a member of the European Union, it has generally implemented important elements of the EU regulatory framework. Therefore, it is likely that the sweeping changes included in the EU's MiFID II, will be implemented in Switzerland as well, with beneficial effects for investors. This was the impetus behind recent legislation. For example, at the beginning of 2019, fund distribution, which is now regulated under the framework of the KAG, will come under the framework of new laws known as Finig and Fidleg, which are largely designed to closely align Swiss regulations with MiFID II. Taxes vary depending on which canton an investor lives in. A variety of tax-advantaged retirement plans are available, encouraging investors to save for the long term. Funds domiciled in other countries are widely available in Switzerland.

Disclosure practices in Switzerland receive an Average grade. Funds are not required to provide the names or tenures of fund managers in any document, though some firms do provide them. There is no information made available on whether managers or board members invest in the funds they run. Also, the funds are allowed a longer lag time in releasing portfolios in Switzerland than in most other countries. On the positive side, the country uses the KIID sales document, which focuses on just one fund and is short, usually two pages long. A searchable central website is available that contains fund information in several languages, though it is not complete.

Switzerland also receives an Average grade for Fees and Expenses. Stated loads are usually negotiable, and many investors also use advisors on a fee-based model, a percentage that is growing and generally beneficial for investors. However, it remains difficult for retail investors to buy funds without paying any advice fees at all.

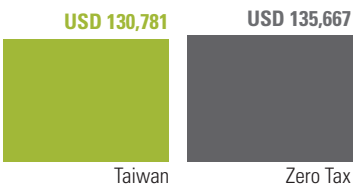
A stronger area for Switzerland is Sales, where it earns an Above Average grade. What had been a product-centered, bonus-heavy culture has been shifting toward a much more helpful approach, as advisors at the leading banks and elsewhere have focused much more on a fee-based model that aims to find solutions to an investor's overall financial needs. Directed brokerage is not allowed, and advisors have to disclose to clients if they have conflicts of interest such as being tied to a specific fund provider.

Taiwan

Overall Grade
Average

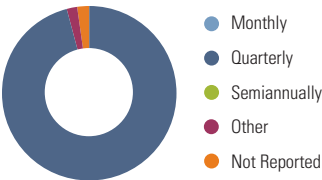
Area	Grade
Regulation and Taxation	Average
Disclosure	Above Average
Fees and Expenses	Bottom
Sales	Above Average

Regulation and Taxation
Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 19

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	1.45	Fixed-Income	1.45
Equity	1.91	Equity	1.84
Allocation	1.32	Allocation	1.85

Sales

Funds Reporting Front Loads % 94

Taiwan's overall grade is Average, which is a step down from our previous report. Despite beneficial tax policies and sales practices, Taiwan's overall grade is brought down by high fund costs and the deterioration in certain disclosure practices.

Taiwan receives an Average grade for Regulation and Taxation. Taiwan has one of the more favourable tax policies in the survey, with no capital gains taxes on fund investments, although dividend taxes exist. The Labor Pension Fund, Taiwan's local retirement scheme, encourages savings by offering tax benefits, but investors cannot make their own fund choices within the scheme. UCITS funds or other foreign-domiciled funds must separately register in Taiwan, with many such funds broadly distributed in the local market. Most countries allow soft-dollar arrangements as long as they are used toward research, but Taiwan goes beyond the norm by banning soft-dollar arrangements altogether.

Taiwan earns an Above Average grade for Disclosure, which is a notch down from our previous study. Funds produce quarterly reports, and the names and tenures of portfolio managers are published in the prospectus. Taiwan's simplified prospectus is a concise document. It provides clear indication of the fund's strategy and risks, as well as the fund's expense ratios over the past five years. Funds release portfolio data to Morningstar and other investors, typically less than 30 days after the end of a reporting period. Position sizes smaller than 1% are not disclosed in the quarterly reports to the public, which is a step back from previous regulation that required full disclosure, and a key reason for Taiwan earning a lower grade here.

Taiwan's Fees and Expenses are among the most unfavourable in this survey, and receive a Bottom grade. Fund costs in Taiwan are high, and fixed-income funds in particular are the most expensive among all the countries in the study. It is difficult for investors in Taiwan to invest in funds without loads or trailing commissions. In fact, Taiwan has the highest reported instance of front loads on both local- and foreign-domiciled funds available in the market. Funds in Taiwan are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance.

Sales is an area where Taiwan fares well compared with other countries in this study, and it receives an Above Average grade. Taiwanese investors have most distribution channels available to them, and Morningstar estimates that more than 80% of funds sold in Taiwan are through an open-architecture system. Advisors in Taiwan are required to disclose conflicts of interest and are not allowed to receive excess compensation for selling funds. Directed brokerage, or sending trade transactions to a specific firm in exchange for directed trades, is not practiced in Taiwan.

Thailand

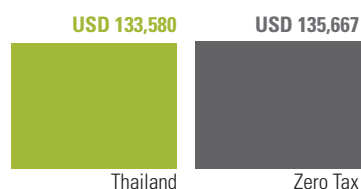
Overall Grade

Above Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Above Average
Fees and Expenses	Above Average
Sales	Below Average

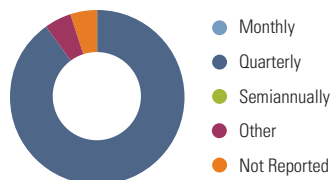
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 65

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	% Available for Sale	%
Fixed-Income	0.47	Fixed-Income 0.47
Equity	1.74	Equity 1.74
Allocation	1.36	Allocation 1.36

Sales

Funds Reporting Front Loads % 59

Thailand's overall grade has risen to Above Average, with corresponding improvements to the Disclosure and Fees and Expenses grades. These improvements come on the back of years of regulatory reform. The Sales grade was maintained at Below Average.

With favourable policies such as tax exemptions on capital gains and other incentives for fund investing, Thailand scores relatively well in the area of Regulation and Taxation, earning an Average grade. The tax credit for investment in long-term equity investments was recently extended from five to seven years. Most regulations in Thailand are equivalent to other markets', including the enforcement of regulations, monitoring of fund advertising, use of soft dollars, and custody of assets. Thailand is one of the few countries that place restrictions on funds investing in foreign securities. While funds from Singapore and Malaysia registered under the ASEAN Collective Investment Schemes can be sold in Thailand, funds from foreign domiciles are rarely used.

Thailand moves to an Above Average grade for Disclosure. Improved portfolio holdings requirements were implemented during the third-quarter of 2015, moving the frequency for most funds from half-yearly to quarterly and reducing the reported lag on the Morningstar database from 101 to 65 days. Simplified prospectuses are written in easy-to-understand language and under new requirements must use charts and tables to help investors better understand complex data. They are typically five to 10 pages in length, and provide the name and tenure of the portfolio manager. Fund fees must be reported in a uniform format with good transparency around most items; however, it is difficult for investors to identify the amount of any trailing commissions being paid to advisors.

Thailand's grade improves to Above Average in Fees and Expenses, benefiting from low expense ratios for fixed-income funds, a small improvement toward the average for equity funds, and competitive allocation funds. Performance fees remain uncommon in Thailand. Front loads are reported on over 50% of funds, but there is limited availability of funds without trailing commissions. Commissions remain the dominant way investors pay advisors for advice.

Thailand has a Below Average grade for Sales, with less than 20% of funds being sold through an open-architecture system (many countries in the survey sell more than 80% of their funds through open architecture). There are a number of distribution channels in Thailand, but most funds are sold through banks. The market is also highly concentrated with the larger fund firms although this is not unusual for smaller markets. Media outlets in Thailand provide almost daily coverage of mutual funds. ETFs are available in Thailand but they have only attracted limited use by advisors and are focused on local equities and commodities.

United Kingdom

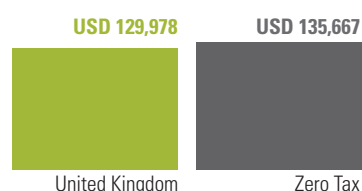
Overall Grade

Above Average

Area	Grade
Regulation and Taxation	Average
Disclosure	Average
Fees and Expenses	Above Average
Sales	Above Average

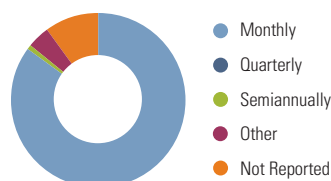
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 61

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.84	Fixed-Income	1.06
Equity	1.28	Equity	1.60
Allocation	1.34	Allocation	1.46

Sales

Funds Reporting Front Loads % 60

The United Kingdom's overall grade is Above Average. Its grades are Above Average for Fees and Sales. The grade for Regulation and Taxation in this year's study slipped to Average from Above Average previously, however, the overall grade remained unchanged.

The previous Above Average grade for Regulation and Taxation reflected the U.K.'s fairly typical regulation and membership of the European Union, giving investors access to UCITS-compliant funds from elsewhere in Europe. UCITS regulation ensures that all EU members meet minimum standards in certain regulatory areas. However, following the Brexit vote this could change. The U.K. still scores well in taxation. Deferring capital gains taxes until sale of shares (typical within this survey), large annual capital gains exemption, and relatively low tax rates on dividends and interest contribute to U.K. investors paying less in taxes than investors in many other countries in the survey.

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

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

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

United States

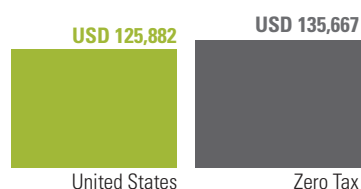
Overall Grade

Top

Area	Grade
Regulation and Taxation	Below Average
Disclosure	Top
Fees and Expenses	Top
Sales	Average

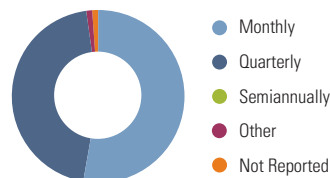
Regulation and Taxation

Growth of USD 100,000



Disclosure

Portfolio Holdings Disclosure Frequency %



Average Portfolio Release Lag (Days) 33

Fees and Expenses

Asset-Weighted Median Expense Ratios

Domiciled	%	Available for Sale	%
Fixed-Income	0.45	Fixed-Income	0.45
Equity	0.67	Equity	0.66
Allocation	0.64	Allocation	0.64

Sales

Funds Reporting Front Loads % 21

The United States is the only country in this study to receive a Top overall grade. On average, U.S. fund investors pay low expense ratios and benefit from strong disclosure practices. On the negative side are tax rules that are unfavourable for fund investors and aspects of the sales culture that fall short, though important improvements have taken place.

The U.S. receives a Below Average grade in the field of Regulation and Taxation. In the U.S., funds must contend with multiple regulators, which can cause confusion and mixed signals. Unlike some other countries, there is no requirement that soft dollars be used exclusively for the benefit of the fund's research. Also unusual is that U.S. investors generally cannot buy funds domiciled in other countries, limiting choice. On the tax side, unlike many other countries, funds must distribute realised gains to shareholders annually for tax purposes.

The U.S. earns a Top grade on the Disclosure front. Funds must publish the names and tenures of portfolio managers, report the amount that managers have invested in their funds (within a broad range), and describe their compensation structure and incentives (not actual monetary compensation amounts). The members of the board of directors are named with the range of their investments, if any, in the funds they oversee. Portfolios must be disclosed quarterly, with at most a 60-day lag. The U.S. is one of the few countries that requires the prospectus to include a monetary illustration of fees over time for a hypothetical investment, in addition to the percentage expense ratio. Any expense that is more than 5% of total operating expenses must be itemised in shareholder reports.

In Fees and Expenses, the U.S. also earns the Top grade. The asset-weighted expense ratios are lower than most other countries, owing to economies of scale and investors moving to lower-cost funds. Typically, management fees contain breakpoints that reduce the fee as assets pass set levels. The U.S. is one of the few markets in which it is common to pay for advice outside of the fund's expense ratio, in a fee-based account. This helps investors realise how much they pay for advice, though investors aren't necessarily paying less in total cost through such an arrangement.

The U.S. receives an Average grade for Sales. While registered investment advisors have had to adhere to a fiduciary standard that required them to put the client's interests first, licensed brokers only had to meet a lower "suitability" standard. That changed with a 2016 Department of Labor rule that went partly into effect in June 2017, improving the situation for investors. Fund companies and sellers have been making beneficial changes that are likely to remain in place no matter what happens. For the time being, though, some brokers are still allowed to sell higher-commission funds when a lower-cost alternative might be better for the investor.

Country Detail

Australia

Regulation and Taxation

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

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

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

While there are multiple laws that apply to the investment industry, ASIC is responsible for developing specific regulation regarding public investment funds from the power granted in these statutes. ASIC is the main regulator for retail mutual funds, but other regulators, including APRA, have overlapping responsibilities for competing products. There are occasional situations where regulations come into conflict. For example, under APRA, superannuation funds have separate disclosure requirements that do not apply to non-superannuation funds. This results in situations where the legal type of the product will determine investment and disclosure rules that are not identical for funds managed similarly using another legal structure. The industry is making attempts to harmonise some of these disclosures. Enforcement is comprehensive; some enforcement actions are public, but publication of regulatory actions against a fund is released on a case-by-case basis. The regulation and supervision of fund advertisements are perceived as effective and prevent misleading or deceptive fund promotions.

All countries in this survey, including Australia, require funds to be audited by an independent party at least once a year. In Australia, fund assets are required to be kept by a custodian. A manager that is also the responsible entity of a fund and meets the minimum custodial standards per ASIC could perform the function of custodian. However, this is not commonplace. The ASIC Regulatory Guide requires that the duties of custodial staff be appropriately segregated from the duties of other employees, and custodial staff should not report to groups responsible for investment, marketing, or operations.

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

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

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

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

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

Australia is one of only a handful of countries that tax interest income; dividends and realised capital gains as they are distributed on an annual basis. Interest income, dividends, and short-term capital gains

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

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

Disclosure

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

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

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

The aggregated expenses shown in the prospective expense ratio within the PDS are well-regulated. The ASIC Disclosure of Fees and Charges for Superannuation and Managed Investment Products guideline requires uniform representation of fees and expenses with the intention of allowing investors to easily compare one fund with another. The prospective expenses in the PDS often include the effect of acquired fund expenses in the case of fund-of-funds structures, although some funds do not report them. The industry is currently implementing Regulatory Guide 97: Disclosing fees and costs in PDS and periodic statements. RG97 takes a prescriptive approach in defining the nature of the fees requires to be produced/displayed in PDS for Australian managed investments. The disclosure requirements are meant to come into effect from 30 September, 2017, and provide additional disclosure around all costs of a fund, including transaction costs.

Remarkably, mutual funds in Australia are not required to publish a full and complete disclosure of their portfolio holdings. In an otherwise sophisticated fund market, Australia's refusal to even approach global best practices on disclosure is disappointing. While the FSC has been working on a policy to obligate its members to minimum levels of holdings disclosure for a number of years, no final policies have been adopted. A requirement for superannuation funds to disclose portfolio holdings has been deferred again, to 2019, while legislation and regulations are finalised. Notwithstanding these points, there are a growing number of asset managers voluntarily moving toward greater portfolio disclosure in line with global best practices.

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

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

Fees and Expenses

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

The legislation amends the Corporations Act and introduces:

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

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

Funds in Australia are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. Performance fees do come with high-water marks and are typically set against appropriate hurdle rates. Terms of performance fees are clearly stated so an investor reviewing a fund’s performance can estimate costs for the current year. Published historic indirect cost ratios (ICRs) include performance fees, so investors know the true cost of the fund in the past year.

In Australia, while individual investors have the ability to invest in offshore funds domiciled in Hong Kong or New Zealand, the practice is uncommon. Quantitative analysis of expense ratios for domiciled and available-for-sale funds indicates that they have very similar overall expense ratios. Morningstar considers the indirect cost ratios to be the comparable expense ratio for Australian funds.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled funds:

Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
0.55%	1.26%	0.90%

Sales

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

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

FOFA requires that advisors act in the best interest of clients, as fiduciaries. This is a stronger investment protection than in most markets, and Morningstar analysts believe these regulations have improved the quality of advice in Australia. The use of contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds was outlawed under FOFA in July 2013.

Investors must certify that they receive a PDS when they purchase a fund in person, and they need to certify that they have received it electronically when they purchase through online platforms.

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

Investors in Australia can find mutual fund articles in their newspapers on a weekly and sometimes daily basis. Mutual fund fees are increasingly being discussed, and there is a growing focus on long-term investing, although short-term figures still predominate.

Exchange-traded funds are available and marketed to retail investors and advisors in Australia. They are used by a small but growing number of advisors. There are multiple providers of ETFs listed for sale on the Australian exchange covering a full range of asset classes, including domestic equity, global and regional equity, bonds, cash, and commodities. Investors typically focus on ETFs listed on local exchanges.

Belgium

Regulation and Taxation

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

"The FSMA is responsible for supervising the financial markets and listed companies, authorising and supervising certain categories of financial institutions, overseeing compliance by financial intermediaries with codes of conduct and supervising the marketing of investment products to the general public, as well as for the 'social supervision' of supplementary pensions."

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

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

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

Although there are multiple regulators, they are generally in agreement with each other. In much of Europe, including Belgium, there is an industry perception that fund regulations are constantly changing, almost too fast for fund sponsors to keep up with or for investors to familiarise themselves with the changes.

Belgian regulators are subject to review by the European Securities and Markets Authority (ESMA) as well as peer reviews by other EU member securities regulators. The FSMA has the authority to regulate marketing of funds and has issued detailed technical requirements on what is permitted in investment advertisements. It preapproves permitted content and format of all fund advertising; ads that are not preapproved are prohibited. The enforcement actions of the FSMA are sometimes public, but publication of regulatory actions against a fund is released on a case-by-case basis.

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

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

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

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

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

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

Investors in Belgium can defer taxation on dividends when choosing accumulation funds, but interest income earned within funds is taxable annually. Capital gains taxes do not typically apply to equity funds, but in many cases, fixed-income funds and allocation funds with at least 25% fixed-income assets face capital gains taxes at a 25% rate. Belgium does not have a wealth tax but does apply a securities transaction tax applied to fund ownership in most cases. An investment with an annualised pretax return of 6.29% in our hypothetical scenario is reduced by 0.45% annually, resulting in an aftertax return of 5.84% annualised.

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

Disclosure

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

The KIID includes an ongoing charges figure, a prospective percentage that excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. In the full prospectus, there is often a scenario analysis with monetary examples on how the performance fee is calculated; but the KIID only provides the percentage. In conclusion, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. The KIID does not contain any disclosure of trading costs.

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

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end funds and exchange-traded funds, and some structured products. Other products such as exchange-traded notes, exchange-traded

commodities, and closed-end funds have separate regulations. Fund companies must publish both annual and semiannual reports, and the financial statements within these shareholder reports contain a comparison with the prior-year period. Unlike most countries in this survey, management's discussion of performance within reports is typically insightful and ties the portfolio returns to specific market events and trades.

Within the financial statements, the monetary costs that compose the ongoing charge are disclosed in total, generally with sufficient specific breakdowns so investors can tell how much is being paid for management fees and performance fees. The statements contain the commissions paid, so investors can estimate trading costs. A turnover ratio and modified turnover ratio are also available. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses within the ongoing charges when more than 10% is invested in another fund.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings; this information is available in the semiannual and annual reports. Some funds in Belgium are willing to disclose portfolios more frequently, and Morningstar typically receives monthly holdings on a delay from nearly 20% of funds.

Funds are not required to provide the name and tenure of portfolio managers, and some firms are even hesitant to provide this information to research companies. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. Under the Alternative Investment Fund Managers Directive (AIFMD), the co-investment information is now required for alternative investment funds.

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

Fees and Expenses

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

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

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

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS 1.15%	Equity / AFS 1.82%	Allocation / AFS 1.67%
Fixed-Income / Domiciled 1.02%	Equity / Domiciled 1.75%	Allocation / Domiciled 1.61%

Sales

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

Mutual funds domiciled in Belgium rarely require an investment minimum of more than a single share.

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

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

Across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice. Sales contests or other incentives related to selling a specific fund are banned in Belgium. Recently, the practice of using sales contests to motivate the general sales of funds has been under tight scrutiny by the FSMA, and there have been many formal notices and informal remarks published to various market participants. The Belgian mass media provides investors frequent information about funds. Mutual fund articles are in newspapers on an almost daily basis.

Exchange-traded funds are available for use by retail investors as well as advisors in Belgium; however, these are still at their infancy in the Belgian market. There is a wide range of ETFs, but none are listed on

local exchanges. Most ETFs that are available for sale to Belgium-based investors are listed in Ireland and France. These span different asset classes, including domestic equity, global equity, bonds, REITs, commodities, and currencies.

Canada

Regulation and Taxation

Overall, the regulation of funds aimed at retail investors in Canada is effective. That said, the situation hasn't been all rosy: some funds were engaging in illegal market-timing in the early 2000s, and over the past three years, Canada's biggest banks have been penalised for overcharging fund investors for more than 10 years. But, in general, investors can be confident that funds are following both the rules and their stated mandates.

Securities regulation in Canada is the responsibility of the provinces and territories, although securities regulators from each province and territory come together to form the Canadian Securities Administrators (CSA). The CSA and the provincial/territorial regulators are jointly responsible for regulation of investment funds. Even though regulation varies among provinces and territories, national policies are in place to promote consistency

The CSA aims to protect investors from "unfair, improper, or fraudulent practices" and to provide "fair, efficient, and vibrant capital markets" through the Canadian Securities Regulatory System, a national system of securities regulation. The CSA maintains a central electronic database called SEDAR, which contains public records of all companies and investment funds publicly traded on the Canadian markets. Individuals can view a company's or fund's recent news releases and financial statements for free, but anyone using SEDAR data for commercial purposes must pay a fee.

Most enforcement actions are public, stating the fines imposed and the type of violation. The agency regulating advertising and sales is effective at preventing misleading marketing materials.

A trade organisation, the Investment Funds Institute of Canada (IFIC), provides guidelines to the industry, and there are also two self-regulators, the Mutual Fund Dealers Association (MFDA) and the Investment Industry Regulatory Organization of Canada (IIROC).

Canada requires funds to keep their assets with a custodian. The custodian may be an affiliate of the fund manager. Funds must be audited by an independent party at least once a year.

Soft-dollar arrangements, in which a fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment, are an accepted

practice in Canada. However, funds with these arrangements are required to disclose them, and regulations state that alternative brokerage arrangements should be limited to goods and services that benefit fund investors.

Most mutual funds in Canada are registered as investment trusts, which are not required to have a board of directors. Fund companies are required to establish an independent review committee to consider and provide recommendations to the manager of the fund on possible conflicts of interest. This committee may oversee a single fund or an entire fund family; the latter is more common. Some funds are set up as a share class of a corporate structure, and in such cases a board of directors typically oversees all the share classes that fall under its corporate class umbrella—though such boards are typically made up primarily of company insiders and do not provide an objective oversight role.

In Canada, funds can invest in securities issued in foreign companies without limit. However, like the United States but unlike most other countries in this survey, Canada does not allow individual investors to buy mutual funds registered in other jurisdictions. But Canadians do have access to exchange-traded funds listed outside Canada.

Canadian tax policies provide incentives to invest for retirement. Contributions to an employer-sponsored Registered Pension Plan (RPP) are tax-deductible for both the employee and the employer. Another option is a Registered Retirement Savings Plan (RRSP). Money deposited into an RRSP is tax-deductible and the investor is taxed at the ordinary income rate at withdrawal. The regulation of management and sales practices of the investment choices in RPP and RRSP plans are essentially identical to taxable-fund choices.

However, one notable feature of the group retirement market in Canada is the use of pooled funds rather than mutual funds. Pooled funds are very similar to mutual funds, but because they are offered privately without public disclosure requirements, they lack comparable public information and thus are difficult to research and analyse.

The Tax-Free Savings Account (TFSA) provides Canadians with another way to shelter their investments from taxes. Money deposited into a TFSA is not tax-deductible (as is the case in the RRSP), but gains in this account are tax-exempt. Withdrawals are tax-free.

Canadian investors are responsible for taxes on most investment income earned within funds held in a taxable account, on an annual basis. Interest income is taxed at the investors' marginal income tax rate. Dividends are taxed annually, but domestic dividends are subject to an "imputation calculation" that attempts to remove the double taxation of dividends. Capital gains earned within fund shares are also subject to annual taxes in the form of a taxable capital gains distribution.

Investment management in Canada is subject to the federal goods and services tax (GST). In addition,

nearly all retail fund investors also pay provincial taxes, because they live in provinces where a combined federal-provincial harmonised service tax (HST) is charged, or because fund companies are allowed to charge a “blended” tax rate that applies to all of its fund sales across the country. These charges are typically itemised in a fund’s financial statements alongside other expenses.

In our hypothetical tax scenario for Canada, a pretax annualised return of 6.29% is reduced by 1.00% annually, for an annualised aftertax return of 5.29%.

Disclosure

In Canada, funds are required to publish a number of documents, including a simplified prospectus; a two-page document called Fund Facts; a semiannual report; and an annual report. Canadian regulations have allowed for the phasing out of the requirement to distribute a simplified prospectus, which is longer than its counterpart in most other countries. Fund Facts is the required point-of-sale document. Prospectuses don’t have to apply to just one fund; in fact, the typical document addresses all of the funds offered by the provider. The simplified prospectus is written in plain language that a typical investor should understand, and the fund-specific sections usually describe its investment objectives clearly enough that an experienced investor can understand its strategy. These sections also identify the probable risks for each specific fund, with risks defined in the document’s main section.

The expense ratio (called a management expense ratio in Canada), includes management, trailing commission, and administrative costs, which are broken out separately in the simplified prospectus. Trading costs are excluded from the management expense ratio. Both past and prospective future figures are provided. The prospectus also includes a numerical example using a standard return that illustrates the total expenses an investor could expect to pay for a fund. But this document does not provide trading cost information or turnover ratio. The prospective management expense ratio includes acquired fund expenses for funds of funds, but the historical management expense ratio does not. The management expense ratio also includes the GST, or HST where applicable.

Fund returns and portfolio holdings do not appear in the simplified prospectus. However, the Fund Facts document does include up to 10 years of annual returns, the best and worst three-month returns over the period, compound annual returns over the period, and the top 10 holdings.

A typical annual report reviews audited financial statements with an itemisation of fund costs. The financial statement portion includes comparisons to prior-year figures. Fund companies are required to publish a Management Report on Fund Performance (MRFP) as a separate filing. These contain useful information such as historical management expense ratios, trading expense ratios, and portfolio turnover rates. The MRFP contains comparisons to the prior four years. The usefulness of the manager commentary portion of the report varies by fund company. In many cases, the commentary is not authored by any of the professionals responsible for the day-to-day management of the fund. These commentaries are typically generic and do not tie portfolio actions to fund performance.

Regulations require that all expenses be disclosed in percentage form in the prospectus and MRFP and in currency within the financial statements. The financial statements itemise expenses such that some investors can understand what portion of fees pays for specific management and administrative expenses of the fund. Expenses are presented in a uniform format and location in the documents, so investors can easily compare funds with each other.

The MRFP contains both a turnover ratio and a trading expense ratio, defined as the total commission and other portfolio transaction costs expressed as an annualised percentage of daily average net assets.

In recent years, the CSA implemented new disclosure requirements, beginning in July 2014. As of July 2016, advisors are required to provide an annual summary in dollar terms of all fees paid to the distributor and advisor (including trailing commissions and loads). They also must provide annual performance reports depicting clients' account performance in standard time-weighted returns and returns on a dollar-weighted basis.

Mutual funds are required to publish a full and complete disclosure of portfolio holdings semiannually. The top 25 holdings are required quarterly, and some fund companies also elect to disclose their top holdings monthly. Most funds report complete holdings monthly to the country's major data providers, including Morningstar.

Portfolio manager information can be found in the Annual Information Form (AIF), a supplemental document to the prospectus. However, figureheads and analysts are often listed rather than, or in addition to, those responsible for the day-to-day management of the portfolio. The portfolio manager's name is always published, and sometimes his or her tenure as well, but often the documents will only list the date the managers joined the firm, not when they started managing the fund. Funds are not required to disclose manager changes that occur between annual reporting periods unless the manager is featured prominently. Many funds list multiple managers and avoid disclosing changes on the team until the AIF is published. Funds do not provide information on manager compensation structure or manager investment in the fund.

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

Fees and Expenses

In Canada, investors are presented a maximum load in fund documents, but these are negotiable with their financial advisors. Investors generally do not pay for advice in addition to loads and management expense ratios. Less than 10% of funds charge a front load, according to industry trade group IFIC, but the vast majority of funds in Canada pay a retrocession, or embedded trailing commission, out of the management expense ratio to compensate fund dealers. (In January 2017, provincial regulators

published evidence in favour of discontinuing embedded commissions and are reviewing public responses to their consultation paper.)

Typically, investors pay a 1.00% retrocession for equity funds and 0.50% for fixed-income funds, though these numbers can vary slightly by fund provider. The table below illustrates the average asset-weighted trailing commission and median trailing commission of commission-based shares across major fund types as of March 2017.

Fund Type	Average Trailer %	Median Trailer %
Fixed Income	0.52	0.50
Equity	0.92	1.00
Allocation	0.87	1.00

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

The table below illustrates the percentage of assets invested in major fund types by distribution channel (including open-end retail funds only). Data as of March 2017.

Fund Type	Percentage of Assets		
	Commission-Based	Fee-Based	Direct
Fixed Income	72.6	24.6	2.8
Equity	77.8	17.0	6.7
Allocation	93.2	5.4	1.4

It's worth noting that because this fee assessment looks only at retail funds, it therefore doesn't include pooled, institutional, or high-net-worth share classes. These are open-end funds sold by prospectus but whose fees are negotiable. We estimate these share classes make up close to half of the assets invested in Canadian funds; the fees listed here would be lower if those options were included.

Funds in Canada are permitted to charge management fees with an asymmetrical performance component, meaning they can earn additional fees for outperformance without an equal reduction in fees for underperformance. However, in practice performance fees are rarely used. Terms of performance fees can sometimes be described in a confusing format, making it difficult for a typical investor to estimate a fund's costs for the current year.

The table below represents the median asset weighted expense ratios across major asset classes for the open-end retail universe. It's worth noting that as shown in the Percentage of Assets table above, the commission-based channel is still dominant in terms of assets, and these expense ratios reflect the impact of trailing commissions. The actual costs incurred by an investor will vary depending on whether

funds are accessed through a commission-based, fee-based, or do-it-yourself channel. Funds in the DIY channel typically carry a trailing commission of 0.25%, which the discount broker collects.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled funds:

Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
1.15%	2.23%	2.02%

A large portion of Canadian investment savings are in pooled funds within retirement plans. Such vehicles in retirement plans are not the focus of this study, but the fees in these pooled funds will typically be lower than the numbers detailed above.

Sales

Traditional mutual funds remain the favoured investment choice for individuals in Canada, but ETFs are also widely available in Canada, marketed to both retail investors and advisors. The assets in these vehicles constitute a small but growing percentage of overall retail investment-fund assets. There are multiple providers of ETFs listed for sale in Canada covering a full range of asset classes, including domestic equity, global and regional equity, bonds, cash, and commodities. Most Canadian investors who own ETFs buy them on domestic exchanges, but some buy ETFs listed on U.S. exchanges, especially if they have U.S.-dollar assets or U.S. income.

Investors have a full range of distribution options to choose from, including fund supermarkets, independent advisors, brokerage firms, banks and insurance companies, and direct sales by the fund company. No single sales channel dominates the market.

Mutual funds in Canada typically have investment minimums, but these are frequently waived for investors in an automatic investment plan.

Advisors are required to deal fairly, honestly, and in good faith with clients, and are generally expected to consider all similar products when making a fund recommendation, but there is no fiduciary requirement to put client interests first. In May 2017, provincial regulators, aside from those in Ontario and New Brunswick, abandoned consideration of a proposal to implement a best-interest standard nationwide.

When purchased via telephone or Internet, funds have 48 hours to supply the Fund Facts sheet to new buyers.

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

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

Investors in Canada can frequently find fund articles in newspapers, magazines, websites, and other sources, and these articles regularly mention fund fees, especially when they are high.

China

Regulation and Taxation

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

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

The CSRC is responsible for regulating and supervising investment funds. According to our local analysts, most sanctions are public. The CSRC is also the organisation responsible for regulating fund advertising and sales practices. The “Securities Investment Fund Sales Management Measure” provides guidelines for the regulation of fund advertising.

The Asset Management Association of China (AMAC) is a self-regulatory organisation that consists of mutual fund companies, banks, other investment companies, and financial-services institutions such as

Morningstar. It is supervised and managed by the CSRC and the Ministry of Civil Affairs of the People's Republic of China. Its main functions include:

- ▶ To safeguard the rights and interests of its members and communicate their suggestions and demands;
- ▶ To provide services to its members, organise educational programs for investors, conduct industry research, promote the industry, organise international exchanges, and foster innovation;
- ▶ To constitute and implement the self-regulatory rules of the industry, monitor and supervise the practices of its members, and take disciplinary measures against those who violate AMAC's articles of association;
- ▶ To form industry standards and organise practice qualifications examinations, as well as manage qualification records and organise training programs; and
- ▶ To intermediate disputes between members or those among members and investors.

All countries in this survey, including China, require funds to be audited by an independent party at least once a year. In China, fund assets are required to be kept by a custodian. The law states that the directors, supervisors, managers, and other employees of the fund company shall not act as custodian of the fund or hold any position in other fund companies and shall not engage in any harmful securities trading and other activities that damage the interests of the fund investor. In addition, Article 28 of the law indicates that the fund custodian and fund company can neither be the same nor be mutually funded or hold shares.

The CSRC has updated a few regulations and guidelines since our 2015 survey. A guideline was issued on 11 September, 2016, that allows asset managers in China to develop and offer fund-of-funds products to investors. The document details the definition, risk management, disclosure practices, and fee restrictions of funds of funds. A consultation was launched on 31 March, 2017, that addresses liquidity risk management for mutual funds.

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

Mutual funds in China are required to have a board of directors, and the board must have at least three independent directors accounting for at least one third of the board members. In China, permission is required for funds to invest in the securities of foreign issuers. Each fund needs a license to invest overseas, and these licenses include limitations on the amount allowed to be invested overseas. China,

India, South Africa, and Thailand are the only countries to have investment policies that are this restrictive.

China has gradually been opening its capital market to foreign investors. The Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect were launched on 17 November, 2014, and 5 December, 2016, respectively. These programs allow foreign investors (institutional and individuals alike) to trade select stocks listed in Shanghai and Shenzhen via Hong Kong, and vice versa. Furthermore, the northbound channel of the China-Hong Kong Bond Connect commenced on 3 July, 2017, which allows foreign institutional investors to access China's bond market.

These programs complement the existing QDII (Qualified Domestic Institutional Investor) system, which allows institutional investors to invest in foreign securities. Furthermore, the CSRC and Hong Kong's Securities and Futures Commission (SFC) implemented the China Mainland-Hong Kong Mutual Recognition of Funds (MRF) on 1 July, 2015. Through this initiative, foreign investors can invest in eligible domestic Chinese funds via Hong Kong and, similarly, domestic Chinese investors are able to gain access to eligible Hong Kong-domiciled funds.

The Chinese government offers tax-deferred saving schemes to encourage individuals to invest toward retirement through annuities. The incentives have been in place since 1 January, 2014. The local pension system consists of three pillars, with the third pillar still in development. The first pillar is the basic, mandatory, and state-managed pension scheme that covers workers in the urban area. The second pillar is the enterprise annuity, which is established by enterprises voluntarily and supported by relevant state incentives. Our local analysts observed that the fund choices are different between the two pillars. However, individual investors have no say in which funds they invest in for either pillar; it is the government or the employer that makes those decisions on the investor's behalf.

In China, there are taxes on income distributions but not capital gains. Rather than individuals being required to file taxes themselves, all interest and dividend income from Chinese companies are subject to a 20% withholding level before the fund even receives proceeds. For individual investors, it appears there are no taxes, but taxes are incurred prior to the return being passed to the fund investor. In China, our hypothetical investment with a 6.29% annualised pretax return has an aftertax return of 5.76%, which amounts to a reduction of 0.53% annually.

Fund management services in China are not subject to a value-added tax or consumption tax.

Disclosure

In China, fund investors receive simplified prospectuses, which pertain to one fund at a time and contain information such as the expense ratio. The simplified prospectus is also required to include a performance history for standardised periods, the name and tenure of the portfolio manager, the top 10 equity holdings, and the top five bond holdings. It is typically more than 10 pages long, mainly because

of the inclusion of distribution and sales information. Our local analysts observe that the simplified prospectus is generally written in plain language. The section that describes the investment objective is written in a way that is clear enough for an average investor to be able to understand the fund's strategy. Risks are also explained clearly and are specific to the fund in question.

All fund investment products in China are subject to a single disclosure regime. Offering documents must be updated annually. The shareholder reports contain financial statements with a prior-year comparison, and China requires quarterly shareholder reports. Funds are required to publish a section on management's discussion of fund performance, which our analysts observe is generally insightful and helpful for investors. Fund costs are presented in total, itemised by fees related to management, ongoing charges such as custodian and administration, marketing and distribution, and purchase and redemption fees. Trading costs and trailer fees are also available.

Expenses are presented according to local accounting regulations, so they are calculated in a uniform manner. In addition, the guidelines issued in 2008 for the content and format of fund company annual reports require all funds to present fees in the same standardised format. Funds of funds are at the infancy stage of development in China and currently do not include acquired fund expenses in the expense ratio shown in financial statements.

In China, the portfolio disclosure standard varies by asset class. Equity funds are required to publish a full disclosure of the portfolio holdings semiannually. This includes long positions in exchange-traded equities, bonds, derivatives, and private investments. Short positions in the form of stock index futures and Treasury bond futures are also disclosed. Top 10 holdings are disclosed on a quarterly basis. Fixed-income funds, however, are required to publish their top five holdings only. Under regulation, funds have 15 working days beyond the end of period for quarterly reports listing top 10 or top five holdings, 60 days beyond the end of period for semiannual reports listing all holdings, and 90 days beyond the end of period for annual reports listing all holdings.

Portfolio manager information can be found in the simplified prospectus. The portfolio manager's name and tenure are published. More than 95% of China-domiciled funds voluntarily report manager names to Morningstar. The managers' compensation structure doesn't need to be disclosed. The managers' investment within the fund has been provided to investors since 2014, detailed by vehicle.

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

Fees and Expenses

Sales loads exist in China, and they vary among different distribution channels. For example, investors who purchase funds online often benefit from larger discounts to the sales load listed in the prospectus compared with those who choose to buy from banks.

Purchasing investment advice directly rather than through loads or trails is not a known practice for individual investors in China. Investors can purchase money market funds and sometimes fixed-income funds without loads or retrocessions, but it is rare for equity funds to have these features.

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

In China, individual investors have limited choice to invest in foreign-domiciled funds. The Mainland-Hong Kong Mutual Recognition of Funds provides a new avenue for domestic investors to purchase a select number of Hong Kong-domiciled funds.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled funds:

Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
0.61%	1.73%	1.76%

Sales

In China, fund choices are widely available through fund supermarkets, traditional brokerages, direct sales, and bank distribution. Fund company direct sales and banks dominate fund distribution, and sales through online platforms are also growing. It is estimated that over 80% of the funds in China are sold through a distributor with an open- or guided-architecture system. Fewer than 50% of locally domiciled products are offered by the 10 firms with the largest lineups.

Mutual funds domiciled in China generally have investment minimums, but these are frequently waived for investors in an automatic investment plan.

Investors in China must receive a prospectus prior to purchasing a fund. Advisors are held to a fiduciary standard and are subject to suitability tests that require evidence of why they recommend a particular product. A guideline was issued on 1 July, 2017, that seeks to further enhance the suitability requirements first published on 12 October, 2007, by specifically requiring advisors to know their clients and recommend products that match their clients' risk profiles. However, advisors are not required to disclose potential conflicts of interest, such as being tied to a specific provider.

Directed brokerage arrangements are prohibited in China.

In China, using incentives to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds is prohibited.

Investors in China can find mutual fund articles in their newspapers, websites, and other media sources on a daily basis.

Exchange-traded funds listed on the local exchanges are available to retail investors through brokerage accounts. In addition, retail investors without a brokerage account can purchase feeder funds that invest in an ETF. Exchange-traded funds available for sale in China cover a number of asset classes, including domestic and global equity, bonds and gold. That said, assets under management are highly skewed toward domestic-equity ETFs. Use of ETFs by local advisors in building client portfolios in China is small but growing.

Denmark

Regulation and Taxation

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

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

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

The FSA is also responsible for regulation of fund advertising; the tenets of the regulation follow MiFID, and adhere to these substantial minimum standards. The Danish FSA has adopted local laws around ethical behaviour relating to securities sales and marketing. While local in detail, as with all European Union mandates, there is specific local language with local customisation and at times additional stringency.

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

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

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

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

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

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

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

For nonretirement savings, Denmark taxes dividend income earned within funds at a capital income tax rate of 27% for all dividend and realised capital gains income below DKK 49,900 per person (DKK 99,800 if married), and at a rate of 42% above that level. All dividend income and capital gains earned within funds must generally be paid out to fund shareholders as dividend income for distributing funds. The above-mentioned taxation is on the shareholder level. The capital income tax rates mentioned above apply. Capital gains upon the sale of fund shares follow the same marginal rates as other capital income. Interest income is taxed as part of ordinary income, and the rate varies from 29.6% to 42.7% depending on investors' financial status. Capital gains upon the sale of fixed-income funds are taxed as part of ordinary income, with taxation levels in the range of 29.6% to 42.7%. Accumulating funds and foreign-domiciled funds are subject to special tax provisions with taxation levels in the range of 29.6% to 42.7% for all dividends, interest income, and capital gains. Denmark does not have a wealth tax or securities transaction tax applied to fund ownership. For retirement savings, the current tax rate is 15.3% for all dividends, interest income, and capital gains. In Denmark, a hypothetical investment with a 6.29% annualised pretax return has an aftertax return of 5.00%, which amounts to a reduction of 1.29% annually.

Investment management is generally exempt from the value-added tax (VAT) in Denmark, but related services including investment advice are subject to the VAT.

Disclosure

In July 2011, the Danish FSA introduced a risk classification of securities into three groups: green, yellow, and red—a so-called traffic light. Green means there is a low risk for loss of principal; yellow means losses may be possible, and red means there is a risk of losing more than the principal or it is a complex product. It covers securities in general and not just funds. UCITS funds are classified as yellow. This risk information must be given to the investor prior to investing.

Funds domiciled in Denmark are required to report a comprehensive cost figure called AOP (annual expense in percentage). This includes the total expense ratio, buy/sell fees, and trading costs that are not covered by the buy/sell fees. The aim with the AOP is to create one figure that covers all costs. This is good for comparison among Denmark-domiciled funds, but as this is only required by local law, it cannot be used to compare funds from other domiciles. But it is important to notice that Danish funds are obligated to deliver additional cost measures (compared with many other countries) and hence provide increased transparency.

Because of the upcoming MiFID II implementation, it is anticipated that the AOP will not be mandatory as more uniform cross-border measures will come into effect.

As a member of the EU, funds in Denmark are compliant with UCITS. The Key Investor Information Document (KIID) is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section

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

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

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

Across the EU, all investment funds that are compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end funds and exchange-traded funds, and some structured products. Other products such as exchange-traded notes, exchange-traded commodities, and closed-end funds have separate regulations. While UCITS funds are the most common in Denmark, funds domiciled in the country must include five-year comparisons in their income statements on key figures such as benchmark return, net asset value, results in monetary terms, dividends, total expense ratio, AOP, and outstanding shares.

There are also many pension funds and alternative investment funds offered to retail clients that are subject to AIFMD rather than UCITS. The disclosure of required of these products is more limited. This report evaluates the dominant UCITS funds within the retail market. UCITS funds must publish both annual and semiannual reports, and the financial statements within the annual reports contain prior-year and five-year comparisons of key figures. Our analysts observe that some management discussions are detailed and insightful for investors and others are more generic and brief.

Within the financial statements, the monetary costs that compose the ongoing charge are disclosed in total, and in some cases with breakdowns so investors can tell how much is being paid for management fees, performance fees, other investment charges (such as custody and administration), and distribution fees (including embedded advice fees). However, we have also observed a more recent trend with some fund companies decreasing transparency in the financial statements and related documents by reducing

the numbers of the relevant cost breakdowns. The statements contain the commissions paid, so investors can estimate trading costs. A turnover ratio may be available within the annual report. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses within the prospective ongoing charges when more than 10% is invested in another fund.

Mutual funds are encouraged to publish a full and complete disclosure of the portfolio holdings. Portfolio holdings must be provided in the financial statements, and if holdings are missing, then a disclosure about how the public can receive this information must be provided. However, most fund groups provide this information monthly to data providers such as Morningstar and typically update top holdings on their websites monthly.

Funds are not required to provide the name and tenure of portfolio managers, but names are generally provided to Morningstar for publication without restriction. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors.

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

There is no central database for fund literature in Denmark.

Fees and Expenses

Investors in Denmark pay loads along a fixed breakpoint schedule and do not have the ability to negotiate loads with their financial advisors. When purchasing funds without advice, there are very few funds without commissions, and in fact many who do invest without advice actually pay for this anyway, as almost all funds in the marketplace carry commission charges.

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

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

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS
1.05%

Equity / AFS
1.81%

Allocation / AFS
1.43%

Fixed-Income / Domiciled
0.58%

Equity / Domiciled
1.43%

Allocation / Domiciled
0.99%

Sales

Danish investors have wide access to online brokerage or bank and insurance company sales channels when purchasing funds, although there are a small number of independent advisors. Banks by far dominate the distribution in the fund marketplace for retail investors. Danske Invest (related to Danske Bank) and Nordea Invest (related to Nordea Bank) are the major players in the Danish fund marketplace, and those two together sit on approximately 50% of the market. Runners-up are Jyske Invest, BankInvest, Nykredit, and Sydinvest—all of which are also closely associated with banks. The top 10 mutual fund companies sit on 85% of the market, and nine are related to banks and distribute through this channel. In general, it is hard for new fund companies without a close relationship to a bank to target and distribute to retail investors. It is estimated that less than 20% of fund sales occur through open- or guided-architecture sales channels, so the vast majority of investors are only offered products branded by the firm distributing the fund.

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

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

Mutual funds domiciled in Denmark rarely require an investment minimum of more than the traditional minimum of a single share.

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

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

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

Danish funds have been discussed heavily in the media of the past couple of years, with articles on fund investing appearing often in the media at least on a weekly basis. We note and disclose that Morningstar is a regular contributor with relevant articles and studies on fund related topics.

Although exchange-traded funds are available to retail investors, their use is predominantly on the institutional side. Global equity, regional equity, and fixed income are the preferred asset classes. Local advisors make limited use of ETFs when building client portfolios.

Finland

Regulation and Taxation

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

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

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

In recent years, Finland has adopted the European Union’s market abuse regulation (MAR) and implemented new EU regulation on manager remuneration, such as the European Securities and Market Authority’s guidelines on manager compensation. The FIN-FSA also requires notification from fund management individuals with remuneration over EUR 1 million. Currently, Finland is updating its legislation and regulatory framework to respond to the requirements of Markets in Financial Instruments Directive (MiFID) II, the new European regulatory framework that will come into force in 2018.

The FIN-FSA is also responsible for regulation of fund advertising; the tenets of the regulation follow the original MiFID and adhere to these substantial minimum standards. According to its website, the FIN-FSA has about 200 employees and its office is in Helsinki.

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

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

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

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment. Soft-dollar arrangements have been an accepted practice in Finland, but MiFID II regulation will require unbundling research payments from execution.

Fund companies in Finland have a supervisory board of directors, though funds do not.

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

Finland allows funds registered in compliance with the Undertakings for Collective Investments in Transferable Securities (UCITS) directive to be marketed to Finnish investors after filing local paperwork. There are no regulatory restrictions, and thousands of share classes in foreign funds are registered for sale in Finland. Funds from foreign sponsors are broadly available through brokerages, typically in insurance wrapper contracts, as well as through private banks.

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

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

accumulation of gains is a positive feature that promotes the use of diversified collective investments. In our hypothetical estimate of five-year aftertax returns, an investor's total return would be reduced by 2.01% annually on an investment earning 6.29% pretax.

Investment management is generally exempt from the value-added tax (VAT) in Finland, but related services including investment advice are subject to the VAT.

Disclosure

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

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

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

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end funds and exchange-traded funds, and some structured products. Retail investors also regularly purchase index-linked notes, and insurance funds as diversified portfolio substitutes. This report evaluates the dominant UCITS funds within the retail market. UCITS funds must publish both annual and semiannual reports, and the financial statements within the annual reports contain prior-year and two-year comparisons of net asset value, total expenses, fund size, and the number of shareholders. Funds are not required to include

management's discussion of the results in their annual reports, but typically they do. In annual reports, funds are required to report changes to portfolio, but this can be done in number format. Overall, we observe that the insightfulness of reporting varies greatly, but most companies give out some information on main performance drivers for the reporting period.

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

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings. These should include, among others, all long and/or short positions in exchange-traded equities, bonds, derivatives, and private investments. Full portfolio holdings must be provided in both the semiannual and annual reports at minimum, which are typically available on the fund managers' websites. Fund companies usually also provide this information monthly to research providers such as Morningstar, and some may provide it on their websites as well. They are required to provide portfolios to the regulator 90 days beyond the end of the period. Although there are no obligations, a high percentage of fund companies typically provide this information to Morningstar monthly, reasonably soon after the end of the period.

Funds are not required to provide the name and tenure of portfolio managers. Despite it not being required, the name of the fund manager is typically reported on the fund's website and sometimes on the annual report. Most Finland-domiciled funds also report manager names to Morningstar. However, many fund firms do not rush to change manager names in reports and webpages after a change of portfolio manager.

Co-investment information of managers is not formally disclosed in any report, but Finnish law stipulates that these holdings must be available upon request at the fund company. On this basis, there have been media reports on fund manager holdings in their own funds. Direct compensation of managers is not available in Finland. While compensation policies are sometimes published, they tend to be very general. However, taxable income is public information in Finland, if you know the birth year of a person, and thus information on manager compensation can be acquired by financial media or other interested parties. However, this information is rarely highlighted by the financial media.

Compensation structures are disclosed in fund documentation according to requirements stemming from UCITS V legislation.

There is no central database for fund literature in Finland.

Fees and Expenses

Many investors in Finland still pay fixed sales loads when purchasing funds, but those placing large sums in funds do have the ability to negotiate fees. Also, some fund companies have abolished loads in recent years, and the popular retail brokerage house Nordnet has done the same for all funds. Also, investors that use an insurance wrapper typically pay no loads. Few investors pay for advice outside of commissions and trailers. Independent advisors, who charge a direct fee for their impartial work, are few and far between. Private banking clients typically pay for advice on top of funds fees, but these investors do not always invest in the same funds as most retail clients.

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

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

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available for sale funds:

Fixed-Income / AFS	Equity / AFS	Allocation / AFS
1.15%	1.80%	1.62%
Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
0.63%	1.60%	1.22%

Sales

Finnish investors have wide access to online brokerage, banks and insurance companies, and direct-from-fund sales channels when purchasing funds. Additionally, investors placing more than EUR 100,000 can access independent financial advisors. Online brokerage is prominent, but financial conglomerates still dominate investment sales; direct-from-fund sales are also an important channel. Clients willing to go outside their primary banking and insurance relationship have the choice of more than 20 fund companies. The top 10 firms with the largest lineups account for over 75% of the locally domiciled products. It is estimated that less than 20% of fund sales occur through open- or guided-architecture sales channels, so the vast majority of investors are only offered products branded by the firm distributing the fund.

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

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Finland, this type of advertising to retail investors is prohibited. Investors who purchase a fund independently are not forced to look through a KIID document before pressing "buy." However, the law states that it must be provided concurrently. Advisors and other fund salespeople in Finland can make any recommendation that they consider appropriate for the client, as per the information concerning a client's willingness and ability to take risk, but the advisor is not required to act as fiduciary. That said, our analysts don't believe these regulatory standards have improved the quality of advice in the market. However, these will likely to get stricter under MiFID II. Direct conflicts of interest do not have to be specifically disclosed by brokers to clients in Finland. But most funds are typically sold by advisors of a bank that owns the fund company, and they are required to provide a written disclosure that part of the fee is charged by the distributing organisation. Additionally, insurance brokers who are compensated from companies for selling their products are required to inform clients that they are associated with those organisations.

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

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

Exchange-traded funds are available for use by retail investors as well as advisors in Finland. While they are popular among the retail investors who can access them through brokerages, ETFs are currently used by a small, but growing, percentage of advisors. There are only a handful of ETFs listed in Finland, thus the majority are accessed from foreign exchanges. Demand for ETFs tends to be across asset classes, ranging from domestic and global equities to bonds and commodities.

France

Regulation and Taxation

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

The AMF maintains a [website](#) that contains the general regulations that apply to the fund industry so that interested investors can understand their rights and protections. France has regularly updated its legislation and regulation to meet the standards adopted by the European Parliament. Since our last study, this has included the fifth revision of the Undertakings for Collective Investments in Transferable Securities directive (UCITS V) as well as the upcoming implementation of Markets in Financial Instruments Directive (MiFID) II in January 2018.

There are no widely published third-party assessments on the size and effectiveness of the financial regulator, but fund advertisements are regulated, with guidelines published [here](#). The AMF publishes key figures about its operations on its website about five months after the end of the calendar year.

French investors can review most, if not all sanctions applied by the AMF against funds by accessing the [sanctions page](#) on the AMF site.

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

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment. French regulation requires that fund management companies act in the best interests of investors and requires

that companies seek best execution when trading securities. Soft-dollar arrangements are a prohibited practice.

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

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

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

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

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

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

Disclosure

As a member of the European Union, funds in France are compliant with UCITS. The Key Investor Information Document (KIID) is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund. We observe that the quality of the strategy description depends upon the fund sponsor; some are very explicit, while others—possibly even the majority—are quite vague and allow a fund sponsor to twist the strategy with no amendment of the KIID. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardised scale that allows for ease of comparison across funds.

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

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

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

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

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

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

Portfolio holdings disclosures are in two tiers for French investors. Those using UCITS funds are entitled to semiannual statements of investments within financial statements listing all portfolio holdings, including long and short positions as well as any derivatives exposure. Legacy non-UCITS mutual funds are required to disclose to the AMF full and complete portfolio holdings annually, but investors only receive partial information. Shareowners can request a full statement of investments, but prospective owners do not have these rights. While the requirement has two tiers, practically speaking it is getting better.

We have found that the majority of funds domiciled in France include the name of the manager in fact sheets advertising the fund rather than the KIID or other regulatory filings. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure also carries to the management companies, which also do not provide this information.

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

Fees and Expenses

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

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

In France, individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in France. The ongoing charges of funds domiciled in France are generally in line with those offered from foreign fund sponsors, but charges for domiciled fixed-income funds are lower than those for fixed-income funds available for sale.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS 1.05%	Equity / AFS 1.80%	Allocation / AFS 1.67%
Fixed-Income / Domiciled 0.76%	Equity / Domiciled 1.76%	Allocation / Domiciled 1.61%

Sales

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

In France, an investor has a range of distribution options to choose from, including fund supermarkets, independent advisors, and banks and insurance companies. Banks and insurance companies dominate fund sales in France. It is estimated that between 20% and 50% of funds in France are sold through a distributor with an open-architecture system. Advisors and distributors are subject to a “suitability” or “reasonable basis” test that requires evidence of why they recommended a particular product. Although an improvement in the quality of advice in the market has not yet been visible, this could change with the implementation of MiFID II.

Most mutual funds in France require an investment minimum, but platforms offer lower minimums. These minimums are sometimes waived or reduced for investors in an automatic purchase plan.

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

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

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

Exchange-traded funds are available for use by retail investors as well as advisors in France. While they are popular among the retail investors who can access them through brokerages, ETFs are currently used by a small, but growing, percentage of advisors. There is a wide range of ETFs available in France, spanning different asset classes, including French equity, global equity, bonds, REITs, and commodities. Demand for ETFs has been growing from retail as well as institutional investors.

Germany

Regulation and Taxation

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

BaFin is the regulator responsible for investment funds on a national level, while the European Securities and Markets Authority has become increasingly relevant on a European level. BaFin pursues its mission statement through the issuance of regulations and guidelines. BaFin's [website](#) publishes many but not all sanctions against the sectors it regulates. Investors can use BaFin's website to access information about the regulations in place to standardise operations and protect investors.

In Germany, the federal audit office supervises the regulator and occasionally offers detailed recommendations for changes. While this is not a third party, it does evaluate the effectiveness of the regulator.

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

Over recent years there have been material changes to regulations in Germany. Kapitalanlagegesetzbuch, effective since July 2013, is the name of the statute outlining the law pertaining to investment funds. Replacing prior statutes, it is the law implementing the Undertakings for Collective Investments in Transferable Securities (UCITS) IV and Alternative Investment Fund Managers directives and now covers both open-end and closed-end funds. A fee-based advice act has been implemented. BaFin issued new guidelines on the structure of performance fees with investor protections such as high-water marks and minimum calculation periods. These became effective in July 2013. Since then, UCITS V has come into force.

All countries in this survey, including Germany, require funds to be audited by an independent party at least once a year. In Germany, fund assets are required to be kept by a custodian. The law requires that

the custodian be independent of the fund manager, but the two organisations can be subsidiaries of the same holding company. Pan-European regulation has strict protections for custody of assets for investment companies.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment. The Markets in Financial Instruments Directive (MiFID) II's "unbundling" rule means that from 2018 investment managers will effectively no longer be able to use "soft dollars" to pay for research from brokers. Prior to 2018, soft-dollar arrangements are allowed, but regulation requires that they be used for the benefit of investors, be disclosed, and that managers seek best execution of trades.

For UCITS, the duties of the supervisory board of the asset management company also extend to the supervision of its funds. At least one supervisory board member must be independent.

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

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

The German government does offer tax-deferred saving schemes called Riester-Rente and Rürup-Rente to encourage individuals to invest toward retirement. The fund products that are allowed under the retirement scheme offer a pretax income deferral based on age. The Riester-Rente savings plans are required to guarantee a minimum payout corresponding to the full disbursement of contributions and government subsidies, and the investment choices are limited. Most taxes are withheld at the income source in Germany. In our hypothetical model, an investment with a 6.29% annualised pretax return has an aftertax return of 4.71%, which amounts to a reduction of 1.58% annually.

Investment management is generally exempt from the value-added tax in Germany.

Disclosure

As a member of the European Union, funds in Germany are compliant with the UCITS V directive. The Key Investor Information Document (KIID) is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, and the details provided are somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and provides a risk/reward score according to a standardised scale that allows for ease of comparison across funds (the SRRI, synthetic risk reward indicator).

The KIID includes an ongoing charges figure, a prospective percentage that excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is

on equivalent terms with the ongoing charges percentage. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. The KIID does not contain any disclosure of trading costs.

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

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

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

Mutual funds are required to publish a full and complete disclosure of portfolio holdings. This information is required in the semiannual and annual reports. Funds are not required to provide the name and tenure of portfolio managers, but names are frequently provided without tenure. These disclosures are available in marketing materials and fund websites and through research providers such as Morningstar. Information on managers' compensation structure is available in the fund's prospectus, but information on the managers' investment within the fund is not provided to investors. The lack of ownership disclosure also carries to the management company, which also does not provide this information.

There is no central database for fund literature in Germany.

Fees and Expenses

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

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

In Germany, individual investors have the choice to invest locally domiciled funds as well as UCITS funds with distribution operations in Germany. The total expense ratios of equity and fixed-income funds domiciled in Germany are generally lower than those offered from foreign fund sponsors.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS 1.03%	Equity / AFS 1.77%	Allocation / AFS 1.73%
Fixed-Income / Domiciled 0.72%	Equity / Domiciled 1.46%	Allocation / Domiciled 1.65%

Sales

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

Most mutual funds in Germany require an investment minimum, but in most cases these minimums are waived or reduced for investors in an automatic purchase plan.

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

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

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

Investors in Germany can find mutual fund articles in their newspapers on a daily basis. These articles often mention mutual fund fees when they are high, and they sometimes promote long-term investing. The introduction and growth of exchange-traded funds has drawn more media attention to higher costs.

ETFs are predominantly used by investors managing their own portfolios and are currently less prevalent among retail investors and advisors. There is a wide range of ETFs available in Germany, spanning different asset classes, including German equity, global equity, bonds, and commodities.

Hong Kong

Regulation and Taxation

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

- ▶ Develop and maintain competitive, efficient, fair, orderly and transparent securities and futures markets.
- ▶ Help the public understand the workings of the securities and futures industry.
- ▶ Provide protection for the investing public.
- ▶ Minimise crime and misconduct in the markets.
- ▶ Reduce systemic risks in the industry.
- ▶ Assist the Government in maintaining Hong Kong's financial stability.

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

Hong Kong doesn't have a single statute regulating funds, but there are multiple laws that together empower the SFC and the HKMA to enforce specific rules. Regulations are regularly updated to address known problems. All enforcement actions are public as is required by the SFC code. The regulation and supervision of fund advertisements is governed by the "Advertising Guidelines Applicable to Collective Investment Schemes Authorized Under the Product Code."

All countries in this survey, including Hong Kong, require funds to be audited by an independent party at least once a year. In Hong Kong, fund assets are required to be kept by a custodian. The SFC code

requires that the custodian be independent of the fund manager; however, there are restrictions on when the two organisations can be subsidiaries of the same holding company.

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

In Hong Kong, there is no limitation on funds investing in securities issued in foreign countries. The Qualified Foreign Institutional Investor (QFII) and the RMB Qualified Foreign Institutional Investor (RQFII) schemes allow certain licensed institutional investors to participate in China's Shanghai and Shenzhen stock exchanges. More recently, the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect programs allow both institutional and retail investors to access select stocks traded on the respective exchanges. Furthermore, the northbound channel of the China-Hong Kong Bond Connect commenced on 3 July, 2017, which allows offshore institutional investors to access China's onshore bond market.

Foreign-domiciled funds do not receive automatic registration in Hong Kong. Rather, funds domiciled in other countries must register for sale to Hong Kong investors. This process is streamlined for UCITS compliant funds. Foreign-domiciled funds are common in Hong Kong, and investors are neutral to local and foreign-domiciled funds. After the implementation of the Mainland-Hong Kong Mutual Recognition of Funds between the China Securities Regulatory Commission and the SFC on 1 July, 2015, the SFC and the Swiss Financial Market Supervisory Authority signed a Memorandum of Understanding on the Switzerland-Hong Kong Mutual Recognition of Funds and Asset Managers on 2 December, 2016.

There are some tax incentives for retirement in Hong Kong. The government offers the Mandatory Provident Fund (MPF), and contributions up to 5% of an individual's salary (capped at HKD 1,500) are exempt from income taxes. The MPF is a defined-contribution product, and fund advisors must be approved to operate by the government. The fund choices offered under the MPF structure are more limited than those offered for nonretirement funds. Disclosure rules and other regulations are also different for nonretirement funds. Since 2012, The Mandatory Provident Fund Schemes Authority (MPFA) has implemented the Employee Choice Arrangement program which allows employees the option of transferring accrued benefits in their current MPF scheme to an MPF scheme of their own choice. On 1 April, 2017, the MPFA launched the standardised Default Investment Strategy (DIS), which

caters to employees who do not indicate a specific fund choice or specifically choose to invest in this strategy. The strategy consists of the Core Accumulation Fund and the Age 65 Plus Fund, which have different risk profiles and consist of diversified investments across global markets and asset classes. The DIS automatically reduces investment risks as members approach retirement age. The management fee is capped at 0.75%, while recurring out-of-pocket expenses are capped at 0.20%.

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

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

Disclosure

Hong Kong has a simplified prospectus called the Product Key Facts Statement (KFS), which forms part of the offering document (along with the prospectus) and contains information such as the ongoing charge and performance. The KFS only refers to a single fund at a time and is typically five to six pages. The language in the document is deemed simple enough for the average investor to understand, and the strategy or objective section typically provides enough information that an investor can determine the investment's strategy effectively. The document also contains sections that cover general investing risks and material risks, both written in a manner that can easily be understood by the average investor. In addition, it contains a standardised ongoing charge calculated in accordance with the "Ongoing Charges Guidelines," as well as calendar-year performance over the past 10 years in the form of a bar chart. However, there is no monetary illustration of fees within the document.

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

The regulation in Hong Kong requires that funds present the current and the prior year's expense ratio within the financial statements, where the monetary costs that compose the ongoing charges are disclosed in total. In addition, fees must be presented in a standardised format so that costs may be compared across funds. Financial statements present the monetary costs used to calculate the expense ratio in total only, providing details on administration, management, performance, custodian, redemption, and trading costs, but not marketing and distribution costs and trailer fees. Such costs are also available in percentage terms in the KFS. Funds that substantially invest in other funds must disclose ongoing charges of the underlying funds in historic data.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings semiannually, including long and short positions in exchange-traded equities, bonds, derivatives, and private investments. These can be found in both the semiannual and annual reports. Holdings are not required to be reported in the KFS. Under regulation, funds have 60 days following the end of the period to release interim reports that include holdings, while annual reports must be released within 120 days. Furthermore, funds that are compliant with Solvency II are obliged to release portfolio holding data to the public including Morningstar and other investors within 15 days.

Funds are not required to provide the name and tenure of the portfolio manager. This information is rarely found in required documents, but it is commonly found in marketing material, particularly fact sheets. Frequently, domiciled funds voluntarily report manager names to Morningstar. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. Locally domiciled funds are unit trusts and do not require a board of directors.

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

Fees and Expenses

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

Funds in Hong Kong are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. However, it must be charged on a high-water-mark principle, as required by regulation. Terms of performance fees are somewhat clearly stated, so an investor reviewing a fund's performance can estimate costs for the current year.

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

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS	Equity / AFS	Allocation / AFS
1.42%	1.89%	1.67%
Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
1.14%	1.72%	1.41%

Sales

Hong Kong investors have banks, insurance companies, online brokerages, and fund supermarkets as widely available distribution options. Banks and insurance companies tend to dominate fund sales. Despite these traditionally closed channels' dominance, it is estimated that more than 80% of funds are sold by a distributor with open or guided architecture. Distributors typically have a guided-architecture platform, offering selected funds from many fund sponsors. The top 10 firms with the largest lineups offer more than half of locally domiciled products.

Most mutual funds in Hong Kong require investment minimums, often between HKD 1,000 and HKD 2,000. However, the investment minimum is frequently waived for investors that enroll in an automatic investment plan.

In Hong Kong, fund investors are provided fund-offering documents at the point of sale, including the KFS, which contains standardised returns. The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission requires advisors to act in the best interest of investors. Therefore, advisors and other fund salespeople in Hong Kong should make recommendations that are most suitable for the specific investor. The SFC issued two circulars in December 2016 to further clarify what would trigger suitability obligations and how a licensed or registered person should meet suitability obligations. Essentially, suitability obligations are triggered when a licensed or registered person is in direct communications with, or is providing discretionary account services to their clients. In doing so, advisors and other fund salespeople should know their clients, conduct product due diligence, provide reasonably suitable recommendations by matching the risk/return profile of each investment product to the client, and provide all relevant material information to clients and help them make informed investment decisions.

Furthermore, the SFC plans to introduce a set of specific guidelines to regulate investment services provided via online platforms. Product-specific materials that are not factual, fair, and balanced, or where there are other circumstances that may reasonably be expected to influence investors to purchase a specific investment product will trigger suitability requirements. This includes robo advice, which inherently contains solicitation or recommendation.

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

The practice of using incentives to motivate general sales of specific funds is permitted but is subject to strict regulation. Advisors must disclose monetary and nonmonetary benefits received for distributing an investment product.

The SFC completed its consultation on “Proposals to Enhance Asset Management Regulation and Point-of-Sale Transparency” in February 2017, which proposes to address potential conflict-of-interest issues and help investors make more-informed decisions. This includes restricting the use of the term “independent” for intermediaries that receive benefits from product providers when selling their investment products, as well as enhancing the disclosure practices of ongoing commissions or monetary benefits that intermediaries receive from distributing various products.

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

Exchange-traded funds are available and marketed to retail investors and advisors in Hong Kong. Local retail investors primarily use ETFs listed on the local exchange, while U.S.-listed ETFs are also available from brokers with U.S. securities trading services. ETFs available for sale in Hong Kong cover a range of asset classes, including domestic equity, global and regional equity, bonds, and commodities. Trading activity on the Stock Exchange of Hong Kong indicates that ETFs tracking Hong Kong and China (both onshore and offshore) equities are the most actively traded, whereas ETFs that track bonds and commodities are less actively traded. Local advisors have limited use for ETFs in building client portfolios in Hong Kong. Instead, ETFs are used primarily by investors who are directly managing their own portfolios.

India

Regulation and Taxation

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

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

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

The Securities and Exchange Board of India (Regulations) 1996 is the comprehensive statute governing the funds industry. All enforcement actions are handled by SEBI as the sole regulator. Indian regulations

are up-to-date, and the financial authorities have been proactive in recent years about keeping fund regulations current. The regulators are considered adequately staffed and have even been proactive in identifying improprieties. Most enforcement actions are public in India and can be found on the SEBI website. The regulation and supervision of fund advertisements are perceived as effective and prevent misleading advertising.

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

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment. SEBI has recently made it mandatory for asset managers to use soft-dollar arrangements only toward research or any other activity that would purely benefit investors, it is also mandatory to disclose such arrangements.

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

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

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

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

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

holding period of one year qualify for a long-term capital gains tax rate of 0%. Additionally, the sale of equity funds is subject to a 0.001% securities transaction tax, which is not applicable for fixed-income funds. Fund management services in India are subject to a service tax that is incorporated into quoted expense ratios. In our hypothetical tax scenario, a pretax annualised return of 6.29% is reduced 0.46% annually, for an annualised aftertax return of 5.83%.

Disclosure

In India, the simplified offering document is known as a Key Information Memorandum (KIM). These typically accompany the application form when investing in a fund. These documents are not required to be one fund at a time, and there is no typical practice of companies providing it as a stand-alone document. Our analysts observe that some fund companies combine the KIM for multiple investments. Conversely, the full prospectus is known as a Scheme Information Document (SID). The typical KIM is 6 to 8 pages in length for each fund. The language in the document avoids too much complex jargon and is clear for modestly experienced investors. Despite the plain language, the investment objective is typically not sufficient for professional investors to know the specific investment strategy of most funds. The section on risks within the KIM is considered more effective, but these risks often apply to all investment funds and are not specific to an individual fund. The KIM also contains a risk meter that grades each fund on a five-point risk scale.

Within the KIM there is presentation of the historic total expense ratio. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is available in the more detailed SID. A disclosure of the turnover ratio is found in the KIM. The KIM also contains standardised returns for the one-year, three-year, five-year, and since-inception periods. The KIM includes the name of the portfolio manager and the tenure. The KIM also contains information on the top 10 holdings and sector exposure.

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

Within the financial statements, the monetary costs that compose the total expense ratio are disclosed in total; there is also a breakdown of the components of the management and administrative costs. Trading costs are not disclosed. Expenses are to be presented under standardised headings as mandated by the regulator. Acquired fund expenses are not included in the total expense ratios for funds of funds.

India is the only country in the survey that requires monthly disclosure of full portfolio holdings. Prior to monthly disclosure becoming mandatory, most companies were already disclosing holdings on a monthly basis as a best practice.

Funds in India are required to provide the name of the portfolio manager within the SID and typically include a start date within marketing materials. The regulator requires both the level of manager remuneration and investments in a fund to be disclosed. The remuneration and ownership is also to be disclosed for the board and the senior management.

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

Fees and Expenses

In India, front-load charges have not been permitted since August 2009. Funds are still allowed to charge deferred loads, and investors cannot negotiate these with the sales agent. Fund companies in India have also launched share classes for each fund where they do not pay any up-front or trailer commissions known as direct plans since January 2013, as per the regulations. The investor benefits from these funds as they have lower expense ratios compared with regular plans. In the earlier regime, front-load charges were typically paid to advisors or brokers as commissions. At present, fund companies can pay a front-end commission to an advisor, but the same can no longer be directly charged to fund investors but is instead incorporated in the total expense ratio of the fund. Investors in India sometimes pay for advice in addition to loads and total expense ratios, though such instances are very rare. SEBI has released guidelines on capping up-front and trailer commissions paid to distributors. It also made it mandatory for disclosure of commissions earned by the distributor to appear in the customer account statements.

Funds in India are not permitted to charge performance fees.

In India, individual investors do not truly have the choice to invest in foreign-domiciled funds, and the total expense ratio of a typical fund available for sale is identical to the typical domiciled fund.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled funds:

Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
0.71%	2.22%	2.03%

Sales

In India, an investor has a full range of distribution options, including fund supermarkets, independent advisors, brokerage firms, and direct to fund, as well as banks. Independent advisors and bank company

sales channels tend to dominate fund distribution. It is estimated that over 58% of funds in India are sold through a distributor with an open-architecture system. Direct investments are a popular option with institutional investors and account for 42% of the overall assets.

Most mutual funds in India require relatively low investment minimums.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In India, this type of advertising is not allowed, as investors are supposed to receive the SID prior to investment. This practice is not strongly enforced.

Enacted in 2013, a person selling mutual funds must register as either a "distributor" (wherein commissions from the investment provider are earned) or an "investment advisor" (wherein advisory fees are paid by the client but no commissions are assessed). Investment advisors are required to follow a suitability or "reasonable basis" standard when dealing with clients—only a small number of people have been nominated as an investment advisor. Distributors and other fund salespeople in India can make any recommendation they feel is appropriate without considering equivalent products available that are most suitable for the specific investor. Distributors are guided by the AMFI code of conduct, which states that they shall keep investors' interests and suitability to their financial needs as paramount while making any recommendations. Advisors must disclose any conflicts of interest to clients.

In India, the practice of using sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds is allowed as long as they adhere to regulations. These incentives along with the commissions need to be within the up-front and trailer caps as mandated by the SEBI guidelines.

Investors in India can find mutual fund articles in their newspapers on a daily basis, and these articles usually promote long-term investing.

Exchange-traded funds are available and marketed to retail investors and advisors in India but have only attracted limited use. The focus is on ETFs listed for sale on the local exchange, which predominantly provide exposure to domestic equities and commodities.

Italy

Regulation and Taxation

In Italy, regulatory responsibility is divided between the central bank, Banca d'Italia, and the market regulator, Commissione Nazionale per le Società e la Borsa (CONSOB). The Bank of Italy is the authority over banks that provide investment services and any organisation engaged in collective asset management. CONSOB is a separate public authority responsible for the regulation of Italy's securities markets. CONSOB operates under Legislative Decree 58 of 24 February 1994, amended 2005. In addition, the Commissione di Vigilanza sui Fondi Pensione (COVIP) is responsible for regulatory oversight of pension funds. As a member of the European Union, Italy's laws conform to European directives, including the Markets in Financial Instruments Directive (MiFID) and Undertakings for Collective Investments in Transferable Securities (UCITS).

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

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

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

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

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

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

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

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

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

Italy allows funds registered in compliance with the UCITS directive to be marketed to Italian investors. Foreign-domiciled funds are common in Italy, and investors historically preferred them because of the

corporate tax treatment received by Italian funds. Until July 2011, funds domiciled in Italy published their aftertax net asset value, setting a disparity of treatment compared with foreign-domiciled funds, although this system has been reformed since.

In Italy, there are specific tax incentives to encourage investors to save for retirement, but these incentives have been reduced in the past year. Pension funds carry a lower tax rate than other funds. Transparency in pension funds is lower than open-end funds. Investors still frequently choose insurance-linked products to take advantage of retirement tax savings. The regulation of these products is perceived as fairly aligned with open-end funds.

Interest, dividend, and capital gains income are taxed at a capital income rate that is different from the marginal income tax. "White List" government-bond interest and gains are taxed at a lower capital income rate. Unlike exchange-traded funds, stocks, and bonds, fund investors cannot use investment losses to offset gains on fund sales. Investors can defer all of these taxes when they invest through an accumulation share class. For fund investors in accumulation share classes, only a capital tax rate is applied to the gains and accrued income upon the liquidation of fund shares.

Since our last review, there has been an increase in the tax rate for capital gains on pension funds from 11.5% to 20%, excluding investments in White List government bonds, which are taxed at 12.5%. In recent months, Italy has also witnessed the launch of a new investment product: PIR (Piani Individuali di Risparmio, or Individual plans of savings). It has been created as a form of medium-term investment, capable of delivering savings to Italian companies, especially small and medium-size enterprises. PIRs can provide a tax advantage if kept at least five years. Fund management services in Italy are not subject to a value-added tax.

Italy has begun the process of transposing the EU's MiFID II directive into national legislation. In April 2017, Italy's Council of Ministers approved a legislative decree containing provisions that will lead to the implementation of MiFID II, which comes into force in January 2018. The decree's preliminary approval will be followed by its passage through parliament, with further implementation decrees expected by the end of 2017. The Council of Ministers writes in a statement that the new provisions apply to market participants such as asset managers, brokerage firms, and banks offering investment services. Investment firms will have to observe "stricter rules" to ensure that investors are offered financial products that are "suitable to their needs and characteristics."

The decree extends client reporting obligations on the costs linked to investment services, including advice and product fees. All costs must be presented in aggregate form, allowing investors to see the total fees paid and the impact on their investment returns.

The decree also stipulates that the European Securities and Markets Authority, the European Banking Authority, and Italy's national regulators CONSOB and the central bank have the authority to limit or restrict the distribution of financial instruments.

In our hypothetical tax scenario, a pretax annualised return of 6.29% is reduced 1.17% annually, for an annualised aftertax return of 5.12%.

Disclosure

As a member of the EU, funds in Italy are compliant with UCITS. The Key Investor Information Document (KIID) is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardised scale that allows for ease of comparison across funds (the SRRI, or synthetic risk reward indicator).

The KIID includes an ongoing charges figure, a prospective percentage that excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. In the full prospectus, there are scenario analyses with monetary examples on how the performance fee is calculated, but the KIID only provides the percentage. In conclusion, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. The KIID does not contain any disclosure of trading costs.

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

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end funds and ETFs. Other products such as exchange-traded notes, exchange-traded commodities, closed-end funds, and structured products have separate regulations. In Italy, a fund's offering document only needs to be updated upon a material change in the operating terms or investment strategy, rather than annually. Fund companies must publish both annual and semiannual reports, and the financial statements within these shareholder

reports contain a prior-year comparison. Management's discussion of performance within reports is typically generic and does not tie the portfolio returns to specific market events and trades.

Within the financial statements, the monetary costs that compose the ongoing charge are disclosed in total and in some cases with breakdowns so investors can tell how much is being paid for management fees and other investment charges (such as custody and administration) and distribution fees (including embedded advice fees).

Commissions paid are available within the shareholder reports so that investors can estimate trading costs. Purchase and redemption fees are also easily found. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund.

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

Funds are not required to provide the name and tenure of portfolio managers, and it is not common practice for fund companies to disclose this information, but some improvements have taken place in recent years. Manager names on fund fact sheets have become increasingly visible and are being provided upon request. Morningstar's database shows manager names for 75% of funds domiciled in Italy. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure also carries to the board and the management company, which also do not provide this information.

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

Fees and Expenses

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

Funds in Italy are permitted to charge asymmetrical performance fees, but fees in most cases may only be levied if the performance is both positive and above the stated benchmark. However, it's not rare to

see performance fee calculated against a price return index. All relevant terms of performance fees are disclosed such that an investor can estimate the costs for current year.

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

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS 1.17%	Equity / AFS 1.85%	Allocation / AFS 1.69%
Fixed-Income / Domiciled 1.12%	Equity / Domiciled 2.07%	Allocation / Domiciled 1.56%

Sales

In Italy, an investor has many distribution options with traditional brokerage houses, fund supermarkets, and banks and insurance companies being widely available. Traditional brokerage as well as banks and insurance company sales channels dominate fund distribution. It is estimated that between 20% and 50% of funds in Italy are sold through a distributor with an open- or guided-architecture platform. In December 2014, a new distribution channel was opened, allowing open-end funds to list on the Italian Stock Exchange and giving investors the ability to buy shares without intermediation (like stocks). As of April 2017, 108 funds were listed, mainly by small asset managers listing ad hoc share classes.

Most mutual funds in Italy have investment minimums, but these are frequently waived for investors in automatic purchase plans.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Italy, this type of advertising is prohibited; investors are supposed to receive a scheme information document prior to investment. This practice is strongly enforced. Additionally, in many instances consumers in the EU have cooling-off periods where certain purchases can be canceled. Advisors and other fund sales people in Italy are required to consider equivalent products available that are most suitable for the specific investor prior to making advice.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are permitted in Italy but are not a known practice. MiFID requires that all brokerage arrangements seek best execution and be for the benefit of fund shareholders.

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

Exchange-traded funds are available for use by retail investors as well as advisors in Italy. While they are popular among retail investors who can access them through brokerages, ETFs are currently used by a small, but growing, percentage of advisors. There is a wide range of ETFs available in Italy, spanning different asset classes, including Italian equity, global equity, bonds, REITs, commodities, and currencies. Demand for ETFs has been growing from retail as well as institutional investors.

Japan

Regulation and Taxation

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

The Japanese mutual fund industry is governed by the Financial Instruments and Exchange Law and the Securities Investment Trust Law (also known as the Investment Trust and Investment Company Act), a comprehensive statute that sets out all the regulatory authority and framework for the specific regulations promulgated by the FSA. While the laws are uniform, their enforcement is not: locally domiciled funds are generally overseen by the Investment Trusts Association (ITA), but foreign-domiciled funds available for sale in Japan are supervised by another agency, the Japanese Securities Dealers Association (JSDA). This division causes a lack in uniformity of some shareholder disclosures. The mutual fund industry is also subject to self-regulation under the ITA with a mission "to protect investors and to contribute to the sound development of investment trusts and investment companies." In practice, most regulations are enforced by the FSA. Japanese rules are regularly updated to reflect changes in the investment industry, and the regulatory agencies are staffed sufficiently for comprehensive enforcement actions. Their oversight has become more proactive in identifying improprieties. Most enforcement actions are public in Japan. Fund advertising and sales practices are self-regulated by the ITA and the JSDA. We regard the regulation and supervision of fund advertisements in Japan as effective enough to prevent misleading advertising.

In December 2016, the FSA first outlined its goals to inspire greater fiduciary responsibility from all financial companies in the chain from individual investor to investment manager. Rather than creating a rule meant to be routinely enforced on the basis of litigation, the FSA laid out seven key principles in a subsequent announcement called "Principles for Customer-Oriented Business Conduct," which it

expects financial instruments business operators (FIBOs) to adopt and follow. We summarise these as follows:

- ▶ Implement customer-oriented business policies.
- ▶ Pursue customers' best interests.
- ▶ Manage conflicts of interest.
- ▶ Detail fees and commissions, under any name, including services rendered, in a comprehensible manner.
- ▶ Show important information for investors choosing a financial product in a non-misleading, easy-to-understand manner.
- ▶ Understand a customer's financial situation, experience, and needs, and tailor products and services to the same.
- ▶ Adopt performance measurement and remuneration policies that incentivise employees to act in the best interest of customers; support these policies with training, and enforce them with corporate governance.

The establishment of these principles is a big step forward by the Japanese regulator in reinforcing consumer safeguards. The emphasis on customer best interest should produce a more investor-driven culture going forward. We anticipate that efforts by managers to compete on the basis of corporate governance and ethics will drive assets to the investor-focused firms. A number of asset managers have already made public statements outlining realigned corporate policies, including in some cases action plans with implementation schedules, and some have reported progress related to encouraging fiduciary duty. The ITA has compiled links to the various policies on its website.

Nonetheless, a lingering structural problem in the Japanese fund industry is that business is driven by distributors (banks and brokerage firms) that are parent companies for fund management companies. Distributors, not fund companies, are the primary contact with individual investors. Historically, distributors have tended to sell high-commission funds for their own benefit and have also pressed fund companies to create new funds with complex schemes or high-risk strategies to command higher commissions. In response, the FSA's recently introduced policy of "Customer-Oriented Business Conduct" targets distributors as well as fund companies. Common practices of churning sales, launching complicated funds, and over-divided monthly dividend funds have been de-emphasised, while asset-allocation funds and wrap accounts have become more popular.

All countries in this survey, including Japan, require funds to be audited by an independent party at least once a year. In Japan, fund assets must be kept by a custodian. The law requires that the custodian be independent of the fund manager, though the two may be affiliated companies. Our view is that in the case of an investment manager and an affiliated custodian, the Japanese rules are strict enough to prevent collusion.

Even though soft-dollar arrangements are not legally prohibited in Japan, they are not used in practice. There is no required disclosure and no requirement that a soft-dollar arrangement benefit fund shareholders, but most major fund companies publicly announce a best-execution policy.

In Japan, funds are structured as investment trusts or contractual funds; the individual funds are not separately registered investment companies. Within this structure, there is no requirement for an independent board that represents shareholders apart from the management company. Supervisory boards, operating at the management company level, rather than the fund level, are becoming more common as a way to oversee fiduciary compliance.

In Japan, there is no limitation on funds investing in securities issued in foreign countries. Japanese investors can benefit from the diversification offered by securities issued elsewhere.

With respect to the domicile of funds (in contrast to the securities the funds might own), Japan does allow funds domiciled in other countries to register for sale in Japan. Although foreign-domiciled funds are common in Japan, information and disclosure for these products are less available for investors than for domestic funds. Given the lack of analyst and media coverage of foreign-domiciled funds, it is a concern that these funds may be marketed to less savvy investors who, relative to more-sophisticated investors, are not as dedicated to personally monitoring their investments.

In Japan, there are specific tax incentives to encourage investors to save for retirement. These incentives are tied to defined-contribution accounts rather than personal accounts. The underlying fund choices in accounts are identical to those available to fully taxable accounts, and funds eligible for the tax-preferred retirement vehicles are subject to the same regulations as all other funds.

On 1 January, 2017, the FSA widely expanded eligibility to individual defined-contribution pension plans through a vehicle called iDeCo. Previously available only to corporate employees and the self-employed, the accounts are now accessible to civil servants, full-time homemakers, and others, expanding the number of people able to benefit from tax-deferred savings.

Additionally, an existing form of long-term savings, the Nippon Individual Savings Account (NISA), which carries a contribution limit of JPY 1.2 million per year, was expanded in shareholder-friendly ways. The new format adds a monthly investment feature starting in 2018 nicknamed MI NISA or Tsumitate NISA, making it easier for investors to contribute regularly rather than having to make a lump-sum contribution. Contribution limits for the new NISA are lower than the old at JPY 0.4 million per year, but the tax advantages of the MI NISA extend to 20 years, versus only five for the original model.

All those living in Japan and at least 20 years of age are eligible for NISA, and there are also new Junior NISA accounts for those under 20, providing a means for wealth transfer from the older to younger generations through 2023. All NISA accounts are exempt from the typical 20% tax on capital gains and

dividend income. For the new MI NISA accounts, the FSA set strict conditions for the menu of funds eligible for use; the initial screening selected only 45 passive and five active funds from a universe of more than 5,000 funds. The FSA is expected to increase eligible funds to 100 or more. MI NISA allows only equity funds or allocation funds investing at least some share to equities; fixed-income funds are not allowed. Expense ratios are capped, sales charges are prohibited, and speculative or complicated investments are screened out. Active funds must have a five-year track record and meet asset inflow requirements. Account providers must report a rough estimate of real holding cost to each investor annually. An individual can hold his/her NISA account with only one financial institution, either a bank or securities firm, including Internet securities firms.

Investors in Japan can defer all taxes on income, dividends, and capital gains earned within funds until they liquidate their fund shares, at which point a 20% tax on income and capital gains applies. The result within our hypothetical investment scenario is that a 6.29% pretax annualised return is reduced to an aftertax annualised return of 5.56%. Fund management services in Japan are subject to an 8% value-added tax.

Disclosure

Japan, like most countries in this survey, requires publication of a simplified prospectus; the Japanese term for this document is Koufu Mokuromisho (delivered prospectus). In most cases these documents are produced for single funds, but regulators allow certain series to file a combined document. The simplified prospectus was shortened in the last several years and is typically between five and 15 pages in length. It is intended to be written in plain language but often fails on this front, in our view. The strategy section is usually sufficient for a professional to identify the specific investment approach and focus of the fund, but it may not be basic enough for the end investor. There is a section on risk disclosure within the simplified prospectus, which sometimes explains risks clearly for investors. However, most funds continue to publish investment risks applicable to funds in general rather than risks specific to a particular fund's distinct investment policies.

The simplified prospectus does not present ongoing charges in a percentage format, either on a historical or prospective basis. The presentation of ongoing charges is provided in percentage terms in the full prospectus and in percentage and monetary terms in the annual report. The simplified prospectus does not contain an illustration of fees for a standard investment, but it does contain information on total commissions paid. Five-year returns are illustrated within the simplified prospectus if the fund has a track record at least that long, including maximum, minimum, and average returns for 12-month periods over the previous five years compared with relevant benchmarks.

The simplified document seldom contains the name of the manager and provides no specific information on tenure. It also does not contain information about portfolio holdings. Our analysts observe that most fund companies have been very cautious about any disclosure of the managers' tenure or start date in Japan, although a few fund companies provide this information. Many funds disclose managers' total

investment experience or information about the division within a fund company responsible for each fund, sometimes including the name of the division head. This information is not disclosed in the prospectus but is available on fund company websites. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. Some fund companies even prohibit managers from investing in their own funds or underlying securities by internal rule for the purpose of avoiding the perception of a conflict of interest. The lack of ownership disclosure carries over to the management company, which also does not provide this information. There is only one fund company that discloses its fund managers' investment within a fund.

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

Although Japan does not publish a total expense ratio, the annual report contains the main expenses that compose the ongoing charges in a standardised format. Each fund is required to show the price of management, administration, and other major expenses as the number of yen and percentage paid per 10,000 units invested, so that knowledgeable investors can determine the costs of various fund services with a high level of specificity. Funds of funds have started to include all acquired fund expenses estimated within the prospectus, but the regulations, and hence the fee portrayals, are ambiguous. Additionally, whereas for single funds, full portfolio holdings are presented in the semiannual and annual reports, and monthly shareholder disclosures cite top holdings, funds of funds that invest in foreign-domiciled funds sometimes show only top holdings.

Finally, investors in Japan can access all fund literature on a [government-sponsored website](#) and an [ITA-sponsored website](#). However, these websites are both difficult to navigate. The FSA is preparing a new educational fund website for individual investors that will encourage mutual fund investment in the younger generation.

Fees and Expenses

In Japan, only large investors have the ability to negotiate sales loads with their financial advisors. Typically, brokerage firms do offer discounts on loads based upon the size of the purchase. These are set by the end distributor rather than the fund companies. In Japan, just over 75% of domiciled funds report charging a front load. No-load funds are typically available via web-based distributors and have also become available through traditional bank and brokerage channels, sometimes via seasonal sales when the loads are waived. It is rare for investors to pay for advice other than through loads or, rarely, trailer

commissions. However, wrap accounts with multiasset funds have become popular over the past three to four years, partly in response to the FSA's initiative to discourage high turnover, commission-driven business and to promote fee- and consulting-based service for long-term investments. However, the move toward reasonable accounting fees for wrap accounts is a work in progress, as current fees seem expensive for individual investors.

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

In Japan, individual investors have the choice to invest in locally domiciled funds as well as foreign funds that choose to register in Japan. Expense ratios of fixed-income funds tend to be higher than in other countries at least in part because most Japanese funds invest in foreign fixed-income securities given the near-zero yields in the domestic bond market. In such cases, funds sometimes use third-party subadvisors that are based in the United States, Europe, or Australia, which adds to management expense.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS 1.35%	Equity / AFS 1.38%	Allocation / AFS 1.45%
Fixed-Income / Domiciled 1.35%	Equity / Domiciled 1.64%	Allocation / Domiciled 1.45%

Sales

In Japan, insurance products are the most popular fundlike product for investors to own. Our analysts believe that this is because with insurance products, clients are depositors rather than investors, and the term "insurance" indicates a lower level of risk. In Japan, an investor has access to most distribution options, including fund supermarkets (Internet-based distributors), brokerage firms, banks, and insurance companies, as well as direct purchase from asset-management companies. While banks and brokerage sales channels still dominate fund distribution, there has been a movement to online brokerage and direct sales to younger investors, although the asset base is still small. Independent financial advisors are not common in Japan, but this channel, along with robo advice, may be growing. It is estimated that over 80% of funds in Japan are currently sold through a distributor with an open- or guided-architecture system.

Most mutual funds in Japan require investment minimums, and these are rarely waived for automatic investment plans. The typical initial investment minimum of funds in Japan is 10,000 units or JPY 10,000, an accessible amount for most retail investors (less than USD 100). The minimum investment for

some directly sold funds is lower, JPY 5,000 or JPY 1,000, and a few Internet brokerage firms have recently introduced even lower minimums, from JPY 1,000 or JPY 100.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Japan, this type of advertising is not allowed; investors should receive a scheme's information document prior to investment. This practice is strongly enforced. However, licensed brokers in Japan are still permitted to make any fund recommendation without consideration of equivalent products, though the FSA recently began encouraging distributors to show similar alternative choices along with initial investment product recommendations.

There is no regulation prohibiting directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds). However, management companies state that they advocate best execution to avoid favourable treatment for distributors. In practice, custodians handle transactions, making directed brokerage difficult.

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

Exchange-traded funds are available to Japanese investors via local and foreign exchanges. Typical asset classes represented by the universe of approximately 160 ETFs include domestic equity, global/regional equity, and commodities. ETFs are not widely used by retail investors in Japan because of liquidity concerns on the Tokyo Stock Exchange and because distributors tend to not promote or recommend ETFs due to small commissions. Some independent financial advisors use ETFs to build portfolios. The use of ETFs may increase as firms rise to a more cost-conscious, best-interest standard for their clients and as younger investors increasingly participate in the market through self-directed channels. Among retail investors in Japan, we observe that ETFs leveraged to the Nikkei 225 are among the most popular and are used for speculative short-term trading. The largest holder of Japanese ETFs is the Bank of Japan, which is the only central bank to use ETFs to implement monetary policy.

Investors in Japan can increasingly find articles on mutual funds in newspapers and other media, every few days or so. These articles frequently discuss the benefit of low mutual fund fees and often promote long-term diversified investing.

Korea

Regulation and Taxation

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

The Korean fund industry is governed by the Financial Investment Services and Capital Markets Act. Most enforcement actions are public in Korea.

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

In Korea, soft-dollar arrangements are common and there is no mandatory disclosure. Instead, the Korean regulator controls soft-dollar arrangements through practice guidance, and fund houses have internal rules on soft-dollar arrangements. Soft dollars used by funds are required to benefit the research of the fund.

In Korea, most funds are investment trusts that issue beneficiary certificates, and they are not required to have supervisory boards. On the other hand, funds structured as securities investment companies are required to have one corporate director and two or more supervisory directors, who must maintain a level of independence pursuant to Article 197 of Financial Investment Services and Capital Markets Act.

In Korea, there is no limitation on funds investing in securities issued in foreign countries. In early 2016, The Korean government equalised the tax treatment between funds investing in domestic equity and those investing in foreign equity if these funds were purchased before the end of 2017. Specifically, investors can invest up to KRW 30 million in Korea-domiciled equity funds that invest over 60% of assets in foreign-listed stocks and be exempt from taxes on capital and foreign exchange gains. This tax-

exemption policy is scheduled to finish at the end of 2017, and further extensions will be dependent on the government. Korea also allows the sale of funds domiciled in other countries, but they must register separately, and UCITS funds do not receive automatic registration.

In Korea, there are three types of retirement pension programs: defined benefits, defined contributions, and Individual Retirement Pension (IRP). All three are eligible for tax benefits. Specific to the IRP, tax benefits have been on the rise. This represents the Korean government's increasing focus on encouraging its aging population to save for retirement. For defined contributions and the IRP, investors can choose from a limited number of pension products, including bank deposits and the funds offered by the pension fund provider. Taxes on the contributions are deferred until the beneficiary begins to receive pension when he or she becomes 55. Any withdrawal other than pension shall be taxed for severance income.

In Korea, investors are responsible for paying taxes on interest and dividends, but not on capital gains, which is consistent with direct investment in securities. There are no additional taxes on investment funds in Korea. Post-liquidation returns of a hypothetical fund portfolio in Korea are 0.41% lower than a completely tax-free scenario's annualised total return of 6.29%. Unlike some countries in this study, fund management services in Korea are not subject to a value-added tax or services tax.

Korea's Individual Savings Accounts (ISAs) were introduced on 14 March, 2016, and these allow investors with an annual financial income of less than KRW 20 million to invest in various financial products, including funds, with the help of professional asset managers (through discretionary ISAs). Tax exemptions ranging from KRW 2.0 million to KRW 2.5 million (approximately USD 1,800 to USD 2,200) are granted to ISA holders who maintain their account for three to five years.

Disclosure

In Korea, the simplified prospectus is a required document. It is required to pertain to only one fund at a time (with the exception of feeder funds, which contain information about its master funds in the same simplified prospectus) and is typically between three and four pages long. The simplified prospectus is required to explain general and material risks to fund investment in language clear enough for retail investors to understand, including market risk, security risk, counterparty risk, credit risk, price change risk, interest risk, derivatives investment risk, and so on. Some parts, but not all, of the simplified prospectus are simple enough for the average investor to understand. The strategy and objective section provides enough information, but it is not always simple enough for an average investor to fully understand.

Regulation in Korea requires that funds present current and historic expense ratios. The simplified prospectus does not contain a monetary illustration of fees based upon an assumption of standard monetary value and return. However, such information can be found in the full prospectus. Holdings are not included in the simplified document.

Both the simplified prospectus and the full prospectus contain returns for standardised periods, which in the majority of cases in Korea are one-, two-, three-, five-, and since-inception returns. Some funds only show returns at the end of every fiscal year. Investors must receive either the simplified prospectus or a full prospectus at point of sale, which contain this standardised return information.

KOFIA has a guideline that recommends the disclosure of the top 10 holdings on a quarterly basis, and this information is included in asset-management reports for investors. At the same time, it is common practice for KOFIA to disclose to the public full holdings through its website on a quarterly basis. Under regulation, funds must disclose their holdings with a minimum one-month lag. Funds typically release portfolio holding data to Morningstar and other investors within 60 days, but KOFIA limits Morningstar and other fund rating agencies to only display top-10 holdings.

All retail products are subject to the same disclosure requirements in Korea. Prospectuses are required to be updated annually, as well as when there is a specific change or amendment.

In addition to the simplified prospectus (and the full prospectus), fund companies in Korea are required to provide quarterly reports to investors. Financial statements typically include comparisons of two to three years prior. Fund companies are required to publish a section on management's discussion of fund performance in shareholder reports, but this discussion is typically generic. Shareholder reports include the expense ratio (generally with a prior-year comparison), and the monetary costs used to calculate this ratio are presented in total only. Investors can easily determine fees related to management, custodian and administration, marketing and distribution, purchase and redemption, and trading costs. However, performance fees (though rare in Korea) and trailer fees are not included. The expense ratio includes acquired fund expenses, presented in historic data regulation requires that there be a uniform presentation of fees within fund literature.

The simplified prospectus contains information on the current portfolio manager. For information on the fund's previous portfolio managers, investors can refer to the full prospectus. In addition, the manager's management history for the past three years is required to be disclosed in the simplified prospectus and quarterly report whenever there is a change in management of the fund. This information is usually available on the KOFIA website as a separate section. All funds voluntarily report manager names to Morningstar. Disclosure of managers' compensation or level of investment in the fund are not required and rarely provided.

Investors in Korea can gain access to all fund literature on the government-sponsored websites.

Fees and Expenses

In Korea, sales loads and breakpoints are stated in the prospectus and are non-negotiable. However, in practice, investors are able to pick and choose between distribution channels for lower loads. It is uncommon for investors to pay for advice when selecting funds. Like many fund markets in Asia,

distribution fees (which are fixed and non-negotiable) are considered to contain advisory services. More than 75% of funds, whether domiciled or available for sale in Korea, report charging a front load. When purchasing funds without advice, investors are able to easily purchase funds with no loads or trailer commissions, typically through the Internet. However, this constitutes a small part of retail investors' assets. In recent years, the FSC has set out plans to introduce independent financial advisors (IFAs), which may have implications on the advisory services and fees that retail investors are subject to in the future.

Since our last survey, retail funds are now permitted to charge asymmetrical performance fees. In other words, funds are permitted to charge performance fees with no offsetting fee reduction for underperformance. Fund documents disclose the relevant terms of the performance fee such that an investor can accurately estimate expenses.

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

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS 1.39%	Equity / AFS 1.89%	Allocation / AFS 1.24%
Fixed-Income / Domiciled 0.56%	Equity / Domiciled 1.63%	Allocation / Domiciled 1.05%

Sales

The fund distribution channels widely available to investors are banks, traditional brokerage companies (better known as securities companies in Korea), insurance companies, online brokerage companies, and fund supermarkets. Traditional brokerage and banks are the dominant distribution channels in the Korean fund marketplace. Fund Online Korea, Korea's first fund supermarket, is an online platform that sells a wide range of funds from different asset managers at a lower fee than the offline channels, though it only accounts for a small portion of the market. It is estimated that more than 80% of funds are sold through a distributor with an open- or guided-architecture system.

Most funds in Korea do not require an investment minimum. However, minimum investments are often imposed by distributors. The typical investment minimum is KRW 100,000 (less than USD 100) for funds domiciled in Korea.

Investors are required to receive a prospectus before buying a fund. Advisors are held to a fiduciary standard and are subject to fiduciary duty tests that require them to act in the interests of investors

ahead of their own interests. They must disclose all conflicts of interest, such as being tied to a specific provider.

Directed brokerage practices (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) do not exist in Korea. In addition, regulation mandates that distributors shall not have sales of funds managed by affiliated fund companies exceed 50% of overall sales.

In Korea, the practice of using incentives to motivate general sales of funds and the practice of compensating advisors for selling particular funds is prohibited.

Investors in Korea can find fund articles in their newspapers, websites, and other media sources on an almost daily basis.

Exchange-traded funds are available and marketed to retail investors and advisors in Korea. Local retail investors primarily use ETFs listed on the local exchange. ETFs available for sale in Korea cover a range of asset classes, including domestic equity, global and regional equity, bonds, REITs, and commodities. Local advisors have limited use for ETFs in building client portfolios in Korea. Instead, ETFs are used primarily by investors who are directly managing their own portfolios. In recent years, the FSC set out plans to stimulate financial advisory services, including the introduction of independent financial advisors and facilitating robo-advisory services. These may represent new channels for ETFs to be used.

Netherlands

Regulation and Taxation

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

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

The AFM is also the agency responsible for the regulation of fund advertising and sales practices. One of the AFM's responsibilities is to ensure that market professionals provide sufficient information to consumers. The AFM has a series of rules to govern the content of advertising, designed to prevent fund companies from misleading consumers.

All Dutch laws and regulations comply with the Markets in Financial Instruments Directive (MiFID), the Undertakings for Collective Investments in Transferable Securities (UCITS), the Pan-European Alternative Investment Fund Managers Directive (AIFMD), and all other European Union directives on funds. The AFM website has information accessible to individual investors to help them understand the laws and regulations of the fund industry.

In early 2014, the Netherlands instituted a retrocession ban on investment funds; funds are no longer allowed to rebate a portion of management fees to advisors and distributors.

The Ministry of Finance supervises the AFM and reports on its effectiveness. As of the AFM's most recent annual report (2016), it had approximately 575 employees supervising the financial industry. Certain types of enforcement actions are public in the Netherlands, but small actions are not necessarily disclosed. Information on this topic can be found on [the AFM website](#).

Like all the other countries in this survey, the Dutch government requires funds to be audited by an independent party at least once a year. In the Netherlands, fund assets are required to be kept by a

custodian. The law requires that the custodian be independent of the fund manager, but the two may be affiliated companies. UCITS and AIFMD both have protections ensuring the appropriate division of responsibilities.

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

Funds domiciled in the Netherlands are mandated to have a supervisory board of directors, given their typical structure as a limited liability company, which requires the supervisory board by law. However, there is no requirement of director independence. Trustees may invest in the funds they oversee, but they are not required to do so.

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

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

The Dutch government has a pension system to encourage individuals to invest in funds in order to provide their own wealth in retirement. The system is made up of three separate pension plans: state-guaranteed pensions for everyone who spent their working life in the Netherlands (AOW), supplementary pensions that are arranged between the employee and the employer (very often industry pensions), and individual pension plans. Though beneficial regulations exist for individual pension plans, the majority of future pension income is expected to come from collective arrangements. Individual pensions in the Netherlands offer tax deferrals, and the fund choices are similar to those of taxable funds, but some disclosure rules and other regulations differ. Funds within pension accounts are exempt from the 2014 ban on rebates, for example.

Dutch investors pay a type of wealth tax on most personal assets above EUR 25,000. Investment assets — regardless of actual returns — are assumed to earn a set return; the assumed rate of return is higher for each of three asset levels, and investors pay a marginal tax rate upon the hypothetical returns. This wealth tax structure is considered similar to paying taxes on dividends and realised and unrealised capital gains annually. The effect of the wealth tax in our hypothetical model lowers a pretax return of 6.29% to an aftertax return of 5.18%, a reduction of 1.11% annually. Although the proceeds of dividends and income are treated similarly, retail investors are subject to withholding taxes to prevent the Netherlands from becoming a tax shelter for foreigners. Those withholding taxes are refundable when investors file their tax returns.

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

Disclosure

Most retail funds in the Netherlands are compliant with UCITS, although a few retail and many institutional products fall under AIFMD. Under UCITS, the simplified prospectus was replaced by the Key Investor Information Document (KIID), essentiële beleggersinformatie in Dutch. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but it is often vague or stated in general terms, with a level of detail that is only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and provides a risk/reward score according to a standardised scale.

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

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

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

Financial statements for funds in the Netherlands typically provide a comparison to the prior year. In the Netherlands, fund companies must publish both annual and semiannual reports. Annual shareholder reports typically contain a section on management's discussion of fund performance that is voluntarily provided and generally insightful for investors.

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

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

Portfolio manager information is not required information in the Netherlands, but more than 75% of domiciled open-end funds report manager names to Morningstar. Typically fund fact sheets and websites provide the name but not the tenure of the manager. No information on the compensation of individual managers or their investments alongside investors is available. Fund investments of the board members must be disclosed in the Netherlands.

The Netherlands does not have a website with a centralised electronic repository of fund documents, though these can be found relatively easily through fund company websites.

Fees and Expenses

In the Netherlands, the collecting of sales loads is forbidden. Since the ban on advisor retrocessions, investors now more frequently pay for advice directly to advisors rather than through rebates. Many sales channels have introduced services with advisory fees replacing the prior model that depended on rebates.

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

Dutch individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in the Netherlands. The ongoing charges of equity and fixed-income funds domiciled in the Netherlands are lower than those offered from foreign fund sponsors. When the Dutch Retail Distribution Review (RDR) was implemented in 2014, investors were shifted from share classes with retrocessions into classes without retrocessions. Contrary to other markets that employed a commission ban only prospectively, the implementation in the Netherlands was immediate. This resulted in a drop in expenses between our 2013 and 2015 studies that was generally proportionate to the rebates paid advisors.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS	Equity / AFS	Allocation / AFS
1.10%	1.73%	1.62%
Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
0.75%	0.67%	0.99%

Sales

Dutch investors have most distribution options widely available, including fund supermarkets, brokerage firms, banks, and insurance companies, as well as directly from fund companies. Online fund platforms continue to compete with the banks and insurance company sales channel for dominance of fund distribution.

Since the breakup of several vertically integrated financial conglomerates, it is estimated that more than 80% of funds in the Netherlands are sold through a distributor with an open-architecture system. The market is becoming less concentrated; the top 10 firms offer less than 60% of locally domiciled products versus over 75% of products in the prior study.

Mutual funds in the Netherlands with stated investment minimums frequently waive or reduce them. With the Dutch RDR banning trailers, many foreign-domiciled funds have offered the institutional share class to investors in the Netherlands, where the high minimums often associated with institutional classes are now banned.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In the Netherlands, investors must first receive a prospectus before investing. The guidelines laid down by AFM require that advisors consider all appropriate products before making a recommendation. It is required, for example, that advisors make clear to clients why they would advise purchasing an actively managed fund over an ETF.

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

In the Netherlands, the practice of using sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds is forbidden under RDR legislation. Advisors are subject to the suitability requirements in MiFID as well as the duty of care standard outlined by the AFM: Investment firms that provide investment advice or manage individual assets have a duty of care toward the consumer. They are expected to give clients only advice that matches their personal situation. We believe that these guidelines have improved the quality of advice in the market.

There is no required disclosure of conflicts of interest, but with bans on rebates, most conflicts are clearly evident.

Exchange-traded funds are widely available in the Netherlands on open-architecture platforms and also through advisors at the largest retail banks. Some advisors and wealth managers have even specialised to provide ETF investment services only. Investors participating in the ETF marketplace, especially through the open-architecture platforms, have access to popular global exchanges, including Euronext Amsterdam, Euronext Paris, London Stock Exchange, Nasdaq, NYSE Arca, and Xetra, and thereby may invest in a wide range of asset classes via ETFs. The AFM guidelines on duty of care, cost, and active and passive investment in the interests of the customer indirectly support growth in the use of ETFs in customer portfolios.

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

New Zealand

Regulation and Taxation

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

The regulations governing New Zealand's mutual funds are the Financial Markets Conduct Act, Unit Trusts Act, Superannuation Act, KiwiSaver Act, and Securities Act. Under the Financial Markets Conduct Act (FMC Act), financial products are classified according to their substance rather than just their form, ensuring all managed investments are captured. Other applicable regulations are the Fair Trading Act for advertising of investment products and the Financial Reporting Act.

The FMA considers that the role of regulation is to ensure:

- ▶ Well-informed consumers and investors.
- ▶ Healthy and robust businesses.
- ▶ Competitive markets.
- ▶ Good conduct by businesses and professionals.
- ▶ Global recognition of New Zealand as a strong business environment.

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

The FMC Act governs how financial products are created, promoted, and sold, and the ongoing responsibilities of those who offer, deal, and trade them. It aims to facilitate capital market activity, in order to help businesses to fund growth and individuals to reach their financial goals. It covers all financial securities issues from debt, equity, derivatives, and importantly for this exercise, all managed funds. The act has created a register to which security issuers must post ongoing information about their securities, including semiannual full portfolio holdings updates, which brings the country closer to global best practices. Previously, there was no obligation on managers to provide data on their holdings at all. A short-form Product Disclosure Document (PDS) and an even shorter form Key Information Document

(KID) with strict word limits are designed to allow investors to quickly identify important characteristics of funds.

All securities issued previously under the 1978 securities law must now be compliant under the new regime. Any new issues must also be issued under the FMC Act.

The investment industry is also somewhat governed by several best-practice guidelines issued by its funds association, the Financial Services Council (FSC). This organisation (previously called the Investment Savings and Insurance Association) represents the views of the major fund managers and insurance companies. In recent years, the FSC has not been as active in promoting best practice guidance around reporting and disclosure. This may change as the FSC has been more active in promoting its role in more recent times and will become even more important as it moves toward a merger with Workplace Savings NZ (the other key industry body) in 2018.

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

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

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

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

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

In New Zealand, there is no limitation on funds investing in securities issued in foreign countries. There are, however, issues around what managed funds can hold, as the recent focus surrounding investments in munitions manufacturers and other such investments have been shown to be contrary to New Zealand law.

To encourage working individuals to voluntarily save for retirement over and above their Government Superannuation Fund, in 2007 the New Zealand government introduced KiwiSaver, a government-subsidised, defined-contribution retirement savings plan offered by private-sector providers. The government subsidy is in the form of a tax credit that is deposited directly into the investor's KiwiSaver account. The government is no longer offering a one-off NZD 1,000 contribution when the scheme is set up; however, a matching contribution of NZD 20 per week to a maximum of NZD 521 is still available. Funds available for KiwiSaver are identical to those available in taxable accounts; the account carries the tax credit, not the fund. Given the success of KiwiSaver since it was launched in 2007, the government has continued to pull back support for this scheme, through the removal of attractive incentives.

In New Zealand, the tax system for funds is quite complex, but in most cases the tax is paid at the fund level, so it's a relatively easy exercise for investors. There are a number of taxable scenarios, depending on the geography of the investment and the domicile of the fund manager an investor chooses. Investors provide their fund company with their marginal investment tax rate, and the company withholds taxes and pays the government on behalf of the end investor. Investors are responsible for taxes upon interest earned, and local dividends, annually at a marginal rate specific to capital income. The most common taxation method for foreign equity holdings is the fair dividend rate (FDR); offshore investments accrue taxes based upon an assumed 5% FDR. The rate is a substitute for an actual calculation of dividend and realised capital gains. Investors also do not face taxes upon the liquidation of fund shares. In New Zealand, a hypothetical investment with a 6.29% annualised pretax return has an aftertax return of 5.38%, which amounts to a reduction of 0.91% annually.

Fund management services in New Zealand are subject to goods and services tax. This increases the cost of fund management.

Disclosure

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

The PDS also lists a synthetic total expense ratio and contains a numerical example of fund expenses including management fees, ongoing charges, purchase and redemption fees, and performance fees. However, no trading cost measure or marketing, distribution, and embedded advice fees are included. It is not easy for investors to identify which portion of fees is allocated to each component cost in the total figure. Acquired fund expenses are included in a prospective total expense ratio of funds of funds. The

manager must calculate a synthetic total expense ratio historically, which includes subfund fees. The manager must also show all fees prospectively in the PDS, if known.

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

Perhaps the greatest improvement since our 2015 survey is that because all mutual funds in New Zealand now fall under the new act, full and complete portfolio holdings are now published semiannually, within four months of the March and September and quarter ends. Under Clause 53(1)(j) of Schedule 4 of the FMC Regulations and Clause 54 of Schedule 4, a complete list of individual assets of the fund as at a stated date (which is not earlier than 40 working days before the date of the PDS) is published, and, against that list, the following information about each individual asset is included: the name of the asset, the value of the asset as a percentage of the specified fund's net asset value, and, if applicable, a security identification number, ticker symbol, or exchange code used to identify the asset. Further work is required to harmonise the treatment of derivatives and the use of security identifiers.

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

New Zealand also now has a website with an electronic repository of fund documents, but the website is in its early development phase and is not fully populated. There is a facility being developed to access the data via API technologies, but as of writing this is not yet live.

Fees and Expenses

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

Between 25% and 50% of available-for-sale funds and funds domiciled in New Zealand report charging front loads, a smaller percentage than in past studies. When purchasing funds without advice, investors

are able to access funds without loads or trail commissions, but as of yet these funds make up only a small part of retail investors' assets.

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

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

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS	Equity / AFS	Allocation / AFS
0.90%	1.38%	1.21%
Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
0.90%	1.38%	1.21%

Sales

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

New Zealand investors have multiple distribution options widely available, including independent advisors, brokerage firms, banks, and insurance companies, as well as directly from the fund companies. Independent advisors along with banks and insurance companies dominate fund distribution. It is estimated that between 50% and 80% of non-KiwiSaver funds in New Zealand are sold through an advisor channel with access to nonaligned products, although true supermarket style open architecture is in its infancy.

Mutual funds in New Zealand typically require investment minimums, but these are frequently waived with participation in an automatic investment plan.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In New Zealand this type of advertising is not allowed. Investors must receive a scheme information document prior to investment. This practice is strictly enforced.

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

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

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

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

Exchange-traded funds are available and marketed to retail investors and advisors in New Zealand, but they have not been widely adopted. There is currently only one provider of ETFs in New Zealand, although investors can also use ETFs listed on foreign exchanges. ETFs listed for sale in New Zealand cover a range of asset classes, including domestic equity, global and regional equity, bonds, and cash. ETFs tracking domestic equities are the most widely used. Local advisors have limited use for ETFs in building client portfolios.

Norway

Regulation and Taxation

[Finanstilsynet](#) is the Financial Supervisory Authority (FSA) of Norway; it was renamed from Kredittilsynet in December 2009. Finanstilsynet is an independent government agency responsible for the supervision of entities across the financial sector and market conduct in the securities market. The regulation governing Norway's mutual funds is the Mutual Fund Act of 2012. Additionally, as a member of the European Economic Area (EEA), Norway's laws conform to European Union directives including Undertakings for Collective Investments in Transferable Securities (UCITS) and the Markets in Financial Instruments Directive (MiFID). Implementing further regulation to be harmonised between EEA members and the EU, such as Markets in Financial Instruments (MiFIR), Market Abuse Regulation (MAR), and Credit Ratings Agencies (CRA) is still a work in progress.

The investment industry is also self-regulated by the Norwegian Mutual Fund Association (VFF). The Financial Securities Authority is the organisation responsible for regulating fund advertising and sales practices.

Norwegians can find information on the laws and regulations providing standardisation and protection in investment products through a handful of websites, including: <https://www.finansportalen.no/>; <http://www.forbrukerradet.no/> and <http://www.finanstilsynet.no/no/Venstremeny/Forbrukerinformasjon/>.

Packaged Retail and Insurance-based Investment Products (PRIIPS) and Alternative Investment Fund Managers Directive (AIFMD) regulations are thought to level the playing field between different entities. However, mutual funds (verdipapirfond) are distinct legal entities that follow a separate act (verdipapirfondloven), subject to UCITS rules. General sales of investment products require a license and fall under MiFID. Some wrappers still distribute similar vehicles under a different law (insurance laws), but in practice, insurance and noninsurance distribution appear broadly similar and follow the same set of rules and standards. Special funds were introduced along with a large overhaul of the Norwegian Mutual Fund Act of 2012, and special funds were only allowed to market to investment professionals. At the introduction of AIFMD, special funds were also opened up for retail clients. Special funds have the same basic framework as UCITS-funds but have a few particularities, such as being able to have low liquidity and/or alternative strategies not generally permitted in UCITS.

Another independent arm of the government, Riksrevisjonen, audits the regulator and reports to parliament. Riksrevisjonen audited all departments belonging to the Ministry of Finance with Inst.169 S (2015-2016), the attention was on issues found in other agencies such as [Statistics Norway](#). Finanstilsynet has approximately 270 total staff members, including enforcement personnel, for a country of around 5 million people. Most enforcement actions are public in Norway, and these can be found on the regulator's [website](#).

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

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment. As a member of the European Economic Area, Norway's laws and regulations comply with MiFID; this directive requires that soft-dollar arrangements be used for the benefit of investors, be disclosed, and that managers seek best execution of trades. Norway allows soft-dollar arrangements that adhere to these restrictions. This will change with the adoption of MiFID II in 2018 and thus will be banned.

In Norway, fund companies are required to have a board of directors that include a minimum of three members elected from fund shareholders. For small changes in fund statutes, these shareholder representatives must have a majority vote for the change. Larger changes of fund rules and statutes require a general meeting where shareholders in the fund in question votes in favour of the change.

In Norway, there is no limitation on funds investing in securities issued in foreign countries. Norway allows funds registered in compliance with the UCITS V directive to be marketed to Norwegian investors.

To encourage working individuals to voluntarily save for retirement over and above the public pension system, there are tax benefits in certain pension savings accounts (IPS, which is due to be renewed in 2017). In 2006, the government introduced a supplemental defined-contribution plan. Employers are required to make a contribution equal to or greater than 2% of employees' earnings unless the employee is covered by a defined-benefit scheme with equal or greater benefits. Individuals can add supplemental contributions that have tax benefits as well. Defined-contribution plans in Norway offer broadly the same choices of open-end and insurance-linked funds that are available for taxable investors; the accounts carry the tax benefit rather than the funds, but insurance companies can, and do, set up non-UCITS mutual fund structures within an insurance wrapper. Most frequently the retirement plans use the same share classes in an insurance wrapper, and portfolios also are offered that are not mutual funds according to the mutual fund act.

In Norway, taxes upon interest income earned by fixed-income funds are collected annually at an ordinary income rate separate from the personal income tax rate, which includes higher brackets for

some employment income. Fund investors are responsible for taxes on corporate dividends only if the fund distributes, which is not required. Long-term capital gains are taxed only upon the sale of fund shares, and the rate is lowered based upon indexation of cost basis. In our hypothetical model, an investor's annualised pretax 6.29% return is reduced by 2.05% annually to 4.24% aftertax.

Fund management services in Norway are not subject to a value-added tax.

Disclosure

In Norway, fund offering documents are known as articles of association and are generally one-time documents. Non-UCITS funds sold in Norway are subject to the same disclosure requirements as UCITS as long as they fall under the Mutual Fund Act of 2012. The Key Investor Information Document (KIID) is required to pertain to only one fund at a time and is required to be two pages long. Regulations require that the KIID be written in plain language. Funds must provide the KIID in Norwegian if the fund is to be marketed to retail investors. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are helpful for an experienced investor in comprehending the fund's strategy, although most won't be as in-depth as distinguishing growth and value equity investing styles. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardised scale that allows for ease of comparison across funds.

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

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

All investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. The Norwegian implementation of AIFMD intends to apply equivalent disclosure for all funds, but it is not exactly parallel. Fund companies must publish both annual and semiannual reports, and the financial statements within these shareholder reports contain a prior-year comparison. Although not required, some fund companies generally provide a useful discussion of fund performance within fund literature, while other may only have generic market comments. Anecdotally, we see that

the best information tends to be provided by the independent fund sponsors rather than those that are a part of the large financial conglomerates.

Within the financial statements, the monetary costs that compose the ongoing charge are disclosed only in total, and investors can rarely tell what portion of expenses pays for which fund services. It is not easy for investors to tell how much is being paid for the major expenses. The current disclosure only concerns the ongoing charge that is required in the EU/EEA KIID document. Description of how a performance fee works is typically adequate, while the overall actual performance fee charge is sometimes reported and sometimes not. Investors have to dig into the financial statements and do the calculations in the cases where the performance fees are not explicitly mentioned. Trading cost information is disclosed in the financial statements in the annual report. There is a uniform presentation of fees and expenses in the form of ongoing charges in the KIID, but some do not adhere to the guidelines from the European Securities and Markets Authority regarding how to calculate ongoing charges. Pan-European regulations require the inclusion of acquired fund expenses when more than 10% is invested in another fund; this is listed in the prospective and historic ongoing charges, but not in the financial statements.

Mutual funds are required to publish full portfolio holdings information semiannually, but most funds provide this information on a monthly basis.

Portfolio manager information is not required information in Norway, but many funds provide managers' names within fund promotional materials. Morningstar's fund database maintains manager name information for nearly 95% of funds domiciled in Norway. The manager's tenure is usually not provided. No information on the compensation of individual managers or their investments alongside investors is typically available. Although the compensation of managers is not directly available, the government publishes the tax information of all citizens including taxable net worth, taxable income, and taxes paid on a government website.

Norwegian investors can access fund documents through a government-sponsored financial site.

Fees and Expenses

In Norway, stated loads are rarely negotiable with the sales agent. But it is common practice for distributors to offer breakpoints, which are reductions in loads based upon the size of the fund or platform investment. Our analysts observe that loads are low and have come under pressure from competition. Investors in Norway rarely pay for advice in addition to loads and bundled expenses.

Norwegian individual investors have the choice to invest locally domiciled funds as well as UCITS funds with distribution operations in Norway. The ongoing charges of funds domiciled in Norway are lower than those offered from foreign advisors.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS 1.19%	Equity / AFS 1.81%	Allocation / AFS 1.62%
Fixed-Income / Domiciled 0.50%	Equity / Domiciled 1.50%	Allocation / Domiciled 1.04%

Sales

Norwegian investors have multiple distribution options widely available, including fund supermarkets, banks, and insurance companies, as well as directly from the fund companies. The direct distribution and bank and insurance company sales channels dominate fund distribution. There are also consultants that advise larger institutions. It is estimated that less than 20% of funds in Norway are sold through fund supermarkets, but they are coming of age and a new account type will likely facilitate this from mid-2017.

Mutual funds in Norway typically require investment minimums, but nominee accounts often have different/lower investment minimums.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Norway, this type of advertising is not allowed; investors are supposed to receive a KIID. It is common practice for fund applications to require a signature (or digital signature) acknowledging the receipt of fund offering documents and the implications of investing in the fund. Advisors and other fund salespeople in Norway can technically make any recommendation they feel is appropriate without considering equivalent products available that are most suitable for the specific investor. However, advisors are required to comply with MiFID rules, and this particularly true in considering equal funds with different fees. The FSA has specifically required advisors to elect the fund with the lower costs in those cases in order to comply with MiFID. MiFID requires the disclosure of certain conflicts of interest, but it is not clear whether all conflicts are currently covered by the FSA circulars.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not prohibited in Norway but they are not a known practice. MiFID requires that all brokerage arrangements seek best execution and be for the benefit of fund shareholders. MiFID II will effectively ban all such behaviour.

In Norway, the practice of using sales contests to motivate general sales of funds is not allowed. Compensating advisors (either monetarily or through awards) for selling particular funds is also prohibited by regulation.

Investors in Norway can occasionally find mutual fund articles in their newspapers. This is less frequent than is reported in many other markets.

Retail investors are able to access exchange-traded products through various platforms. Brokers typically give access to Nasdaq OMX Nordics (CPH, STH, HEL), Frankfurt, Amsterdam, London, Paris, some offer also partial U.S.-listed ETPs (particularly exchange-traded notes). There is limited data available to assess which areas are generally favoured by investors in this space, although it is clear that ETFs are generally used by individuals investing directly.

Singapore

Regulation and Taxation

The Monetary Authority of Singapore (MAS) is the regulatory body responsible for the supervision of the financial sector. It is the central bank of Singapore. Its mission is “to promote sustained noninflationary economic growth and a sound and progressive financial centre.” Its basic functions include conducting “integrated supervision of financial services and financial stability surveillance” in addition to other responsibilities associated with a central bank. The Code on Collective Investment Schemes (CIS) is issued by the MAS pursuant to the Securities and Futures Act (SFA), and it sets out regulation of the management, operation, and disclosure of funds.

Regulation enforcement is handled solely by the MAS. All enforcement actions are public and listed on the MAS website. The MAS is also the organisation responsible for regulating fund advertising under the “Code of Best Practices in Advertising Collective Investment Schemes and Investment-Linked Life Insurance Policies,” issued in 2006.

In addition to the MAS, there is a trade-industry body called the Investment Management Association of Singapore (IMAS), whose members include licensed fund management entities in Singapore. IMAS regularly issues voluntary codes and guidelines on global best practices to promote the growth and development of the fund industry.

All countries in this survey, including Singapore, require funds to be audited by an independent party at least once a year. In Singapore, fund assets are required to be kept by a custodian. The custodian is appointed by the Trustee of the scheme, not the fund company. In practice, most funds use independent custodians, but a few exceptions occur in which the custodian and the fund manager are separate business entities that belong to the same parent holding company.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment. The CIS code restricts the use of soft-dollar arrangements and requires the disclosure of soft dollars received from each broker in the semiannual and annual reports. In addition, the manager can only receive soft dollars if they can assist in the manager’s provision of investment advice or related services to the scheme. The manager is expected to carry out best execution for the transactions and not enter unnecessary trades in order to achieve a sufficient volume of transactions to qualify for soft dollars.

Funds registered in Singapore are unit trusts and they have trustees instead of a board of directors. Funds are required to appoint an independent trustee. The trustee ensures that the fund is managed according to the trust deed to minimise the risk of mismanagement by the fund manager.

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

Foreign funds are allowed to register for sale in Singapore. Additionally, funds registered in compliance with UCITS receive streamlined registration in Singapore. Foreign-domiciled funds are common in Singapore, and investors are fairly neutral of domicile when making an investment choice.

To encourage working individuals to voluntarily save for retirement over and above their Central Provident Fund (CPF) savings, which is a compulsory government-managed savings scheme, the Singapore government offers tax deferral for investments in a Supplementary Retirement Scheme. Monies in a CPF account can be used for housing, education, retirement, and other government-authorised uses. CPFs include many investment choices, but there are additional regulations on CPF-approved investments. CPF contribution rates are high, up to 20% of an employee's salary and 17% from the employer, subject to a cap depending on the employee's age. The CPF is working on introducing a new Lifetime Retirement Investment Scheme (LRIS), which involves a few simple, low-cost investment options that adopt a passive management approach.

In Singapore, individual investors not in the business of trading securities are exempt from capital gains taxes and interest. Additionally, dividends earned from CPF funds are exempt from taxes. Furthermore, dividends from foreign companies, and a variety of other classes of companies and savings schemes are also exempt from taxes. Interest earned from approved banks and funds is also exempt from taxes. Mutual fund investors are generally exempt from all investment taxes in Singapore. A hypothetical five-year fund investment has identical pretax and aftertax returns of 6.29%.

Fund management services in Singapore are subject to the goods and services tax.

Disclosure

In Singapore, the combination of a Product Highlight Sheet (PHS) and a fact sheet is a simplified prospectus. Investors must receive both a PHS and full prospectus before making an investment. The PHS is typically accompanied by a fact sheet of one to two pages. It must pertain to only one fund at a time and is required to be four pages or fewer, but it can also include an additional four pages of diagrams. Returns are included in the fact sheet as well as in the prospectus, although only the prospectus discloses returns in the form of standardised periods.

The PHS and fact sheet are written in plain language that is simple enough for an average investor to understand. The strategy section in the PHS includes information for professionals to identify the investment strategy used by the portfolio managers. Risks are generally explained clearly within the

document and are specific to the fund in question. Expense ratios are presented on a historic basis within the PHS. The PHS typically does not include a monetary illustration of the impact of fees based upon an assumption of standard monetary value and return. Holdings are not included in the PHS, but the top 10 holdings are available in the fact sheets.

The regulation in Singapore requires that funds present the current and prior-year expense ratios, which can be found in the financial statements, where the monetary costs that compose ongoing charges are disclosed in total. In addition, fees must be presented in a standardised format to allow comparisons across funds. This allows investors to identify fees related to administration, management, performance, custodian, purchase, and redemption, and somewhat for marketing and distribution. The expense ratio also includes acquired fund expenses in historic data. The trading cost is not provided, though it can be estimated using the provided turnover ratio as a proxy.

All retail products are subject to the same disclosure requirements in Singapore. Offering documents are only updated when the document is amended or changed. Fund companies must publish both annual and semiannual reports. Management's discussion of performance is not required information, but it can usually be found on marketing material such as factsheets and website commentaries. In addition, a typical annual report reviewed included brief descriptions of soft-dollar arrangements, an independent trustee's report, audited financial statements with a detailed itemisation of fees within the notes, and a full portfolio.

Mutual funds are required to publish full portfolio holding information semiannually. However, they are not required to report positions in private investments. Funds typically release portfolio holdings data more than 100 days following the end of the period. Most funds report holdings on a semiannual basis, with less than 20% of funds reporting monthly portfolios to Morningstar.

The name of the portfolio manager along with a professional history is required information in Singapore and provided in the full prospectus. Just over 40% of domiciled funds voluntarily report manager names to Morningstar. No information on the compensation of individual managers or their investments alongside investors is available.

In Singapore, MAS hosts a website, Offers and Prospectuses Electronic Repository and Access (OPERA). As the name implies, OPERA hosts prospectuses but not all fund literature.

Fees and Expenses

In Singapore, stated loads are generally negotiable with the sales agent. Fund literature states maximum sales loads, and distributors market funds at reduced commissions, but small investors do not actively negotiate on their own behalf.

It is possible but rare for investors to pay for advice other than through commissions and or retrocessions. In Singapore, more than 75% of available-for-sale funds report charging front loads, and likewise more than 75% of locally domiciled funds report charging a front load. Funds with no loads or retrocessions exist in Singapore but are difficult for investors to locate and make up a small percentage of assets.

Funds in Singapore are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. Terms of performance fees are stated so an investor reviewing a fund's performance can estimate costs for the current year. Funds in Singapore are permitted to charge management fees with an asymmetrical performance component. The performance fee should be calculated based on fulcrum fee or high-water-mark arrangement.

Singaporean individual investors have the choice to invest in locally domiciled funds as well as foreign funds that choose to register with MAS. In Singapore, expense ratios of funds domiciled in Singapore are generally lower than those offered from foreign advisors.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS	Equity / AFS	Allocation / AFS
1.40%	1.89%	1.69%
Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
0.88%	1.74%	1.43%

Sales

Singaporean investors have most distribution options widely available, including independent advisors, brokerage houses, fund supermarkets, and banks and insurance companies. Bank and insurance company channels dominate fund sales, though fund supermarkets are also popular. It is estimated that more than 80% of funds are sold through an open-architecture system. Over 75% of locally domiciled products are offered by the 10 firms with the largest lineups.

Funds in Singapore typically require investment minimums, but these are frequently waived or reduced with participation in an automatic investment plan, otherwise known as a regular savings plan in Singapore.

In Singapore, fund investors must receive a prospectus (which includes the PHS and the fact sheet) prior to purchasing a fund. Advisors are subject to suitability tests under Section 27 of the Financial Advisors Act, which states, "no licensed financial advisor shall make a recommendation with respect to any person who may be reasonably expected to rely on the recommendation if the licensed financial advisor

does not have a reasonable basis for making the recommendation to the person.” Furthermore, advisors are required to disclose conflicts of interest, such as being tied to a specific provider.

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

In Singapore, the practice of using incentives to motivate general sales of funds and the practice of compensating advisors (either monetarily or through awards) for selling particular funds is allowed under strict regulation. The regulations are found under the fair dealing provisions of the Financial Advisers Act.

A series of new requirements were implemented in 2016, including a balanced scorecard requirement for the remuneration of financial advisors as opposed to pure sales measures.

The MAS is taking steps to standardise the disclosure format of trailer fees in the PHS in order facilitate easier comparison by investors.

There is limited media coverage of mutual funds in Singapore, with investors finding mutual fund articles in their newspapers, websites, and other media sources only occasionally.

Exchange-traded funds are available and marketed to retail investors and advisors in Singapore. ETFs listed on the local exchange cover a range of asset classes, including domestic equity, global and regional equity, bonds, commodities, and REITs. Hong Kong-listed and U.S.-listed ETFs are also available from brokers with such trading services. Local advisors have limited use for ETFs in building client portfolios in Singapore, and there are a number of financial advisory firms that are less incentivised to take up ETFs because of the lack of retrocessions. Furthermore, certain ETFs listed on the Singapore Exchange and ETFs listed on the U.S. and Hong Kong stock exchanges are classified as Specified Investment Products (SIP) by the MAS. SIPs are more complex products and can only be sold to retail investors with enhanced safeguards, including an assessment of these investors’ investment knowledge or experience. The SIP classification limits the accessibility of these ETFs to retail investors.

South Africa

Regulation and Taxation

The regulatory landscape in South Africa continues to evolve under the Retail Distribution Review (RDR) and the implementations of Board Notice 92 of 2014 as well as responding to new standards for fee disclosure. The results are notable improvements since our 2015 study.

In South Africa, the nonbanking financial-services industry is overseen by the Financial Services Board (FSB), an independent institution established by statute to act in the public interest. The FSB has supervisory authority over collective investment schemes, financial-services providers, insider trading, insurers, nominee companies, retirement funds, and friendly societies. The enforcement committee of the FSB is empowered to adjudicate alleged misconduct and has the power to enforce unlimited penalties, compensation, and cost orders. Its actions are enforceable as if the Supreme Court of South Africa had ruled. The FSB website has thorough, understandable descriptions of its duties and responsibilities. Among other things, it provides easy access for investors to file complaints, find relevant legislation, and receive consumer education.

The FSB is also responsible for regulating fund advertising and sales practices.

The regulations that govern the fund industry are codified in the Collective Investment Schemes Control Act 45 of 2002 (CISCA). This act outlines permitted content for advertising, marketing materials, and subscription of funds in broad terms. Also included are the requirements of a fund's deed (somewhat similar to a long-form prospectus—there is no true equivalent in South Africa) and other required fund literature.

The Association for Savings and Investment South Africa (ASISA), a nonprofit company, has a mandate to represent the South African fund industry, making it an important participant in negotiations with regulatory authorities concerning policy and regulatory issues. ASISA has codes of standards and practices that its members must adhere to. The FSB has delegated certain enforcement of regulations on ASISA members to ASISA.

Important changes have swept the South African fund landscape in recent years. Since our 2015 study, for example, the following relevant actions have been enacted:

- ▶ Board Notice 92 of 2014, which mandated new advertising, marketing, and disclosure requirements, effective 1 May, 2015.
- ▶ Declaration of a hedge fund business as a collective investment scheme from 1 April, 2015—Government Notice 141 of 25 February 2015. This declaration required all hedge funds to apply for registration by 30 September, 2015, either as a new management company or as an existing management company adding hedge funds to its product lineup. Applicants could register either as a qualified-investor hedge fund scheme or a retail hedge fund scheme.
- ▶ Determination on the Requirements for Hedge Funds—Board Notice 52 of 6 March 2015. These requirements govern hedge funds under the collective investment scheme regulatory framework.
- ▶ Capital Requirements with which a Manager of a Collective Investment Scheme in Hedge Funds Must Comply—Board Notice 84 of 17 April 2015.

Most enforcement actions are public in South Africa. The regulation and supervision of fund advertisements are adequate. In South Africa, funds must be audited by an independent party at least once a year, and fund assets are required to be kept by a trustee, which performs the function of custody as well as other roles. Trustees are required to be independent companies without any affiliation with the fund company.

In South Africa, funds are required to have independent trustees, rather than boards of directors, that are responsible for ensuring that funds follow their founding documents.

Soft-dollar arrangements (in which a fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment) are an accepted practice in South Africa, but funds with these arrangements must disclose them. Additionally, soft-dollar arrangements are required by regulation to benefit research of the fund.

In South Africa, fund companies are subject to exchange controls, and investment mandates may limit investments in offshore assets. Each fund company may invest a certain percentage of assets overseas (this is at the firm level and not the fund level). The exchange-control requirements issued by the South African Reserve Bank limit foreign investment to 35% of a firm's total assets under management within collective investment schemes.

The FSB allows foreign funds to register for sale to its citizens. Foreign-domiciled funds are somewhat common in South Africa, but under exchange-control legislation, investors are restricted in the amount of capital they may invest overseas. Funds are also subject to exchange-control legislation. For individual investors, locally domiciled funds that invest overseas do not count toward the personal exchange-control legislation limits. In South Africa, investors can purchase non-FSB-approved funds, but in order to market themselves, funds must be approved by the FSB.

There are tax incentives to save for retirement in South Africa. (Tax-free savings accounts are available for nonretirement savings, as well.) Three types of retirement funds qualify for tax incentives: pension funds, provident funds, and retirement annuities. Individuals may deduct up to 15% of their taxable income for contributions to retirement annuities. There are no taxes on retirement annuity, pension, and provident fund assets. Retirement annuities must have guaranteed components and follow the Pension Fund Act rather than Cisca. Investment choices available in retirement annuities can be identical to those outside of the annuity wrapper, but the annuity component is required.

In South Africa, investors are responsible for taxes on interest income at the standard income tax rate. Foreign-source dividends are also generally taxed at an individual's income tax rate. Domestic dividends are taxed at a lower rate. Capital gains earned within investment funds are not subject to annual taxation and accrue in the fund's value until sale of the fund. At that time, the first ZAR 30,000 of income considered capital gains are excluded from income; additionally, there are maximum implied rates keeping long-term capital gains tax rates significantly lower than income tax rates despite high stated rates upon the excess. Shares held longer than three years are considered capital gains. There are no additional taxes on fund savings. In South Africa, a hypothetical investment with a 6.29% annualised pretax return has an aftertax return of 5.06%, a reduction of 1.23% annually.

Fund management services in South Africa are subject to a value-added tax.

It should be noted that changes to the regulatory environment in South Africa are under way, with two new regulators to be introduced, which will see the FSB replaced by the proposed Financial Services Conduct Authority (FSCA). Under the proposal, the FSCA will carry out regulation as per the proposed Conduct of Financial Institutions (CoFI) act. The aim of this proposal is to create more consistency and a more proactive approach in the regulation of all investment products by focusing on disclosure, product value outcomes, complaints processes, and industry accountability. The proposed second regulator—the prudential authority—will form part of the South African Reserve Bank and will be accountable for oversight of systemic risks and ensuring the sustainability of financial institutions.

Disclosure

Several new requirements released in 2015 improved disclosure and introduced reforms to the regulatory framework for distributing retail financial products to customers in South Africa. While the proposed rules were included in the 2015 Morningstar scoring model, the areas of improvement did not receive full credit because their effects were not yet evident. In addition, updates to ASISA standards for fee disclosures have created standardised and detailed representations of fund charges, which helps investors better compare component charges across investment products. These changes greatly increase South Africa's disclosure scores in our report.

In South Africa, fund literature documents have somewhat different names than in other countries. Offering documents are generally one-time documents that require a majority of investor votes to change.

In terms of section 90(2) of the Collective Investment Schemes Control Act, investors must receive (within 90 days after the financial year-end) a report detailing material facts related to the financial affairs of the portfolio. The report must include any deviation from the investment mandate, abridged financials statements, details of distributions, information on performance, details of charges and composition of assets, details of any qualification made in the auditor's report as well as a statement that copies of the audited financial statements are available free of charge on request by an investor. Financial statements of investment scheme portfolios include comparisons to the previous year by way of generally accepted accounting practices or required by IFRS accounting standards. The annual report is the closest document to the annual prospectuses found in other countries.

As of May 2015, Board Notice 92 of 2014 requires the distribution of a Minimum Disclosure Document (MDD), which is considered equivalent to a simplified prospectus document in other countries. Board Notice 92 requires that an MDD must be provided at the point of sale and for the purposes of providing a general investor report on quarterly basis, and it must be no longer than four pages in length. The information in this form is regulated to contain certain levels of information and must pertain to only one fund at a time. The MDD and/or general investor report must contain, among other disclosures, the value of the portfolio, whether the portfolio adhered to its investment mandate, the total expense ratio, and changes in the composition of the portfolio.

The document is required to disclose the essential characteristics of the portfolio, including the risk/reward profile of the portfolio, to allow investors to make informed decisions. This information must be disclosed in plain language that is concise, clear, and not misleading as well as being void of unnecessary technical jargon. In terms of performance disclosures in the MDD, the return of the portfolio must be disclosed on a standardised basis for short- and long-term periods using both annual and cumulative figures that must be fairly presented against a relevant benchmark.

While not required by regulation, it common practice for the MDD to include the top 10 holdings of the portfolio and the name of the portfolio manager. Funds generally provide a section on management's discussion of fund performance. Regarding fee disclosure, the Board Notice notes that at a minimum a manager must ensure that each MDD contains "fees and charges associated with the most expensive class available directly from the manager for investment by members of the public, other than financial institutions; (total expense ratio, management fees, initial fees, performance fees, advisory fees, and any other applicable fees)." The MDD typically does not contain a monetary illustration of expenses.

Improvements have been made to how funds in South Africa disclose fees. ASISA updated its standards during 2015, requiring its members to separately disclose the total expense ratio, transaction costs, and

the resultant total investment charge for each fund. In addition, the standardised calculation and disclosure of fees was brought in line with the ASISA Standard on Effective Annual Cost effective on 1 October, 2016. The effective annual cost is an annualised aggregation of four components (investment management fees, advice fees, administration fees, and other fees), which are required to be disclosed separately. These new standards help investors isolate and compare charges across collective investment schemes.

In South Africa, only open-end funds are considered retail investment products. Other products are considered insurance products and are subject to separate regulation.

Funds are required to disclose full portfolio holdings to the regulator quarterly, with partial information available to the public. There is a move toward monthly holdings disclosure; however this is still in its early stages. Current and prospective fund investors can obtain holdings information upon request. Almost all funds in South Africa report their holdings to Morningstar at least quarterly, but holdings data can sometimes be suppressed, which is true for some of the more well-known and larger asset managers in South Africa. Asset-allocation data up to the most recent quarter is readily available on tools such as Morningstar Direct.

Portfolio manager information is not required in South Africa. However, almost all funds do voluntarily produce a fact sheet that contains the manager's name without including the manager's tenure. This is one disclosure feature where South African funds provide voluntary disclosure that is better than typical practices around the world. No information on the compensation of individual managers or their investments alongside investors is available.

South Africa does not have a central website with an electronic repository of fund documents.

Fees and Expenses

In South Africa, stated loads (known as initial charges) are generally negotiable with the sales agent and are generally scaled down with the size of the investment. While it does occur, it is not overly common for the investor to pay for advice outside of commissions and retrocessions. The fee is usually negotiated and paid directly to the advisor through the redemption of units. When purchasing funds without advice, funds without loads or trail commissions are accessible but make up a large part of investors' assets.

In South Africa, fund management companies do not typically charge initial fees (also known as loads) for direct investments in collective investment schemes.

Funds in South Africa are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance, and the practice is very common. Performance fees in South Africa do not have a uniform structure and vary meaningfully, making them difficult to compare and understand. This is partly a problem because it skews total expense ratios in

South Africa from year to year depending on how performance was the prior year. Standards for how performance fees are structured are concerns for both government and ASISA.

Effective 1 January, 2017, ASISA introduced a new Performance Fee Standard that aims to guide the its members in terms of acceptable practices and complement the ASISA Effective Annual Cost and Total Expense Ratio Standards. While this standard is a step in the right direction, it only provides broad guidelines for members on what is acceptable in terms of performance fee structures.

South African individual investors have the choice to invest in locally domiciled funds as well as foreign funds (whether FSB approved or not). FSB approval of funds is required for funds that intend to engage in active marketing and advertising strategies to the general public. Fund investors do face limits on the cumulative amounts they can invest in foreign securities. The total expense ratios of funds domiciled in South Africa are generally lower than those offered from foreign fund sponsors.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS	Equity / AFS	Allocation / AFS
0.87%	1.83%	1.61%
Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
0.86%	1.43%	1.61%

Sales

In South Africa, funds (also known as unit trusts) are the preferred investment vehicle for new pooled investments.

South African investors have all surveyed distribution channels widely available to them, including direct from funds, independent advisors, brokerage houses, fund supermarkets, and banks and insurance companies. No one channel dominates fund sales. According to the most recent ASISA member statistics, direct sales, the largest channel, account for 30% of fund distribution. Approximately 24% and 19% of funds in South Africa are sold through an intermediary salesforce and a distributor with an open-architecture system, respectively.

Funds in South Africa typically require investment minimums, but these are frequently waived with participation in an automatic investment plan.

In South Africa, investors must receive the Minimum Disclosure Document at the point of sale, which came into effect in May 2015 with the enactment of Board Notice 92 of 2014. Under the provisions of the Financial Advisory and Intermediary (FAIS) Act of 2002, financial-services providers (including advisors) in South Africa are at all times expected to render services honestly and fairly, with due skill, care, and diligence and in the interest of clients and the integrity of the financial-services industry. The

Retail Distribution Review (RDR) has also suggested updates to the FAIS that seek to professionalise the advisor role through an extra layer of regulatory exams and ongoing professional development. These changes are likely to come into effect in 2017 and should improve the quality of financial advice over time.

The second phase of the RDR, with implementation currently in progress, seeks to address the independence of financial advisors through categorisation. Two types of advisors have been proposed — a Registered Financial Agent (RFA) and Product Supplier Agent (PSA). RFAs will have their own license making them fully accountable for client advice. Furthermore, the relationship between the RFA and product supplier will come under increased scrutiny and will determine whether the advisor can be labelled independent or not. A PSA will only be licensed to provide advice on products within their supplier's suite of offerings. Independence is a contentious issue in the advisor community, and these changes should help investors understand exactly what type of advice they are receiving, independent or not.

Directed brokerage arrangements are not prohibited or common practice in South Africa.

Regulations in South Africa limit funds from paying third-party advisors more than ZAR 1,000 annually in incentives, entertainment, gifts, or educational training. This severely limits inducements and sales contests. There is not a similar restriction on salesforces tied to the fund sponsor. These restrictions protect investors from the worst abuses of sales contests, and we consider this a significant restriction protecting investors from biased advice.

Investors in South Africa can generally find articles on fund investing in their newspapers on a weekly basis. These articles sometimes mention fund fees when they are excessively high, and there has been increased scrutiny on investment charges in recent years. Articles on fund investing frequently promote long-term investing.

Spain

Regulation and Taxation

In Spain, the regulatory body responsible for laws governing the investment industry, including fund advertising and sales practices, is the Comisión Nacional del Mercado de Valores (CNMV). Per the CNMV's website, "The purpose of the CNMV is to ensure the transparency of the Spanish market and the correct formation of prices in them, and to protect investors. The CNMV promotes the disclosure of any information required to achieve these ends, by any means at its disposal; for this purpose, it uses the latest in computer equipment and constantly monitors the improvements provided by technological progress." Its [website](#) contains information for an investor to understand the regulations governing the fund industry. Additionally, as a member of the European Union, Spain's laws conform to EU directives, including Undertakings for Collective Investments in Transferable Securities (UCITS) V and the Markets in Financial Instruments Directive (MiFID).

The CNMV is also responsible for regulating fund advertising and sales practices. The local legislation has been regularly updated to adopt the regulatory changes imposed by the European Parliament and the European Securities and Markets Authority (ESMA). These updates are published on the CNMV or the Banco de España websites. There are no available third-party assessments of the effectiveness of the CNMV. Most enforcement actions are public in Spain, and enforcement actions are posted on the CNMV website. The regulation and supervision of fund advertisements are perceived as partially effective and only identify the worst violations.

All countries in this survey, including Spain, require funds to be audited by an independent party at least once a year. In Spain, fund assets are required to be kept by a custodian, but the custodian may be an affiliated company.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment. As a member of the EU, Spain's laws and regulations comply with MiFID. This directive requires that soft-dollar arrangements be used for the benefit of investors and be disclosed, and that managers seek best execution of trades. Spain allows soft-dollar arrangements that adhere to these restrictions and requires that these be disclosed to investors.

In Spain funds are not required to have boards of directors.

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

Spain allows funds registered in compliance with UCITS V to be marketed to Spanish investors. Foreign-domiciled funds are common in Spain, but investors still prefer locally domiciled funds.

In Spain, the government has a pension system to encourage individuals to invest in funds as a way to provide their own wealth in retirement. The Spanish pension system is made up of three pillars: state-guaranteed pensions for everyone working in Spain; supplementary pensions that are arranged between the employee and the employer; and individual pension plans. Individual pensions in Spain are frequently linked to insurance contracts. Additionally, pension funds in Spain are regulated by the Direccion General Seguros y planes de Pensiones, a division of the Spanish Ministry of Finance and Taxes, rather than the CNMV. Individual pensions in Spain offer tax deferrals, but the fund choices are limited and do not have the same disclosure requirements as fully taxable funds.

Investors in Spain can defer taxes on interest and dividends earned within funds if they choose accumulating share classes. Capital gains taxes only apply to funds in Spain upon the liquidation of fund shares when there is not a rollover into another qualified fund. All locally domiciled funds are typically considered qualified, but foreign-domiciled funds must have at least 500 investors to qualify. Investment funds also receive the benefit of income accrual without ongoing taxes and tax deferrals into approved funds. Nevertheless, there is a small tax on the realised profits earned within funds. The result for investors in our hypothetical tax scenario is a reduction of just 0.03% to an annualised 6.29% pretax return.

In Spain, most goods and services are subject to a value-added tax. Most finance and insurance services in Spain are exempt, but discretionary personal portfolio advisory services are subject to a VAT.

Disclosure

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

The KIID includes an ongoing charges figure, a prospective percentage that excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. In the full prospectus, there are scenario analyses with monetary examples on how the performance fee is calculated, but the KIID only provides the percentage. In conclusion, the KIID does not consistently help investors in determining the exact

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

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

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end and exchange-traded funds. Other products such as exchange-traded notes, exchange-traded commodities, closed-end funds, and structured products have separate regulations.

In Spain, fund companies must publish shareholder reports quarterly. Financial statements within the shareholder report typically include comparisons to three prior years. Management's discussion of performance is required information, and our local analysts observe that fund companies usually provide a general market commentary that does not tie in to investment decisions or fund performance. A few fund shops do distinguish themselves with thorough and candid discussions. A typical annual report reviewed included a proxy for transaction costs, total expenses, fund risks and objectives, an abbreviated financial statement, full portfolio holdings, and a discussion of fund performance.

Shareholder reports list sales and redemption charges, and itemise management fees as well as depository charges. But these documents lack information on embedded trailers, as well as marketing and distribution fees. The criteria used by the fund companies to apply a performance fee can vary from one company to another. Therefore, the end investor is not aware of how much he/she has paid in terms of performance fee when this fee is applied, although the performance fee charged for the whole fund is published on quarterly reports. An investor that invested partway through the year doesn't know how much was paid in performance fees. The turnover ratio is provided as a proxy for the cost of trading securities. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund. Fund expense information is available both in fund literature and on the CNMV website.

Mutual funds are required to disclose full portfolio holdings to the public quarterly, and nearly 80% of funds provide Morningstar with this information monthly.

Portfolio manager information is not required information in Spain, and this information is infrequently present in any fund-produced documents. No information on the compensation of individual managers or their investments alongside investors is available.

The CNMV has a website with an electronic repository of fund documents. The CNMV has actively improved its website since our first study, and the information is now considered timely and well maintained.

Fees and Expenses

In Spain, stated loads are not negotiable with the sales agent, and the maximum management fee and the maximum depository fee that a fund can charge are fixed by law. It is rare for investors to pay for advice outside loads or trailer commissions embedded in expenses. Unlike many countries in this survey, we observe that it is common for Spanish investors to purchase funds without advice. Most funds available to investors through supermarkets, brokers, or advisors carry retrocessions. Those funds distributed directly by the fund house or the parent bank don't, and these segments of the market constitute a large chunk of retail assets. But most foreign funds, which are usually sold through intermediaries, have trailer commissions that the investor is unaware of.

Funds in Spain are permitted to charge management fees with an asymmetrical performance component that lacks an equal reduction in fees for underperformance. Terms of performance fees, can be confusing particularly around how the high-water mark is reset. Few investors could estimate the performance fee they would pay unless they are invested for full calendar periods. Performance fees have not been common in the past, but our analysts have observed them more frequently in recent years, especially among funds employing alternative strategies.

Spanish individual investors have the choice to invest in locally domiciled funds as well as UCITS funds filing the necessary paperwork.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS	Equity / AFS	Allocation / AFS
1.15%	1.84%	1.70%
Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
0.40%	2.00%	1.12%

Sales

In Spain, an investor has multiple distribution options to choose from, including fund supermarkets, independent advisors, banks and insurance companies, traditional brokerage firms, and directly from the fund. The fund supermarkets and bank and insurance company channels dominate fund sales. It is

estimated that less than 20% of funds in Spain are sold through a distributor with an open-architecture system, although guided architecture including foreign-domiciled funds is becoming more common.

Mutual funds domiciled in Spain usually require investment minimums, but they are typically very low.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is prohibited in Spain. Advisors and other fund salespeople in Spain can make any recommendation they feel is appropriate without considering equivalent products available that are most suitable for the specific investor.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not prohibited by any Spanish regulations, but they are not known to be a common practice. MiFID requires that all brokerage arrangements seek best execution and are for the benefit of fund shareholders.

Conflicts of interest are generally quite obvious when they occur. Specifically, many fund representatives are employees of the fund sponsor; independent advisors must specifically disclose conflicts of interest.

In Spain, the practice of compensating advisors (either monetarily or through awards) for selling particular funds is not banned. However, across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice.

Investors in Spain can find mutual fund articles in their newspapers on a daily basis. These articles rarely mention mutual fund fees when they are high. Articles on fund investing sometimes promote long-term investing but tend to be short-term-oriented.

Exchange-traded funds are predominantly used by institutional investors in Spain and are currently unpopular among retail investors who are burdened with an additional layer of taxes when trading ETFs. There is a wide range of ETFs available in Spain.

Sweden

Regulation and Taxation

Finansinspektionen (FI) is the regulatory body responsible for laws governing the investment industry in Sweden, including fund advertising and sales practices. According to [its website](#), "Finansinspektionen is Sweden's financial supervisory authority. Our role is to promote stability and efficiency in the financial system as well as to ensure an effective consumer protection. We authorise, supervise and monitor all companies operating in Swedish financial markets. Finansinspektionen is accountable to the Ministry of Finance." In early 2014, The FI launched Konsumentskydd, a new unit for consumer protection. The FI has approximately 450 employees for a country with 10 million inhabitants.

All FI enforcement actions are published on its website.

As a member of the European Union, Sweden's laws conform to EU directives, including Undertakings for Collective Investments in Transferable Securities (UCITS) V that was introduced into Swedish law during 2016. The Markets in Financial Instruments Directive (MiFID) II was introduced during 2017 and will come into effect on 3 January, 2018.

Lag (2004:46) om Investeringsfonder is the name of the comprehensive law regulating the fund industry. This has been updated in 2011:882 to bring local laws into compliance with the Pan-European UCITS V and Alternative Investment Fund Managers Directive (AIFMD).

Fondbolagens Förening is the Swedish investment fund trade association, and its [website](#) provides information to help both fund companies and investors understand the regulations that apply to the management and marketing of mutual funds.

Sweden has an independent evaluator of government institutions, Riksrevisionen, whose responsibility it is to check aspects of the FI's work. An [audit](#) that was completed in February 2017 focused on inadequate protection of pension savings and the weaknesses in the supervision of occupational pensions. The Swedish Consumer Agency issues binding [guidelines](#) relating to the marketing and advertising of the fund industry that were last updated February 2014. The investment fund association's guidelines fully incorporate those of the consumer agency.

Sweden, as well as the rest of EU, requires that funds be audited by an independent party at least once a year. In Sweden, funds are not required to have boards of directors. Funds registered in Sweden are required to keep assets at a custodian, but the custodian may be an affiliated company. However, UCITS has strict rules when the depository is a related party. This results in few fund firms with related custody arrangements. The two largest banks, SEB and Swedbank, have both fund management and custody operations, and almost all independent Swedish fund companies are their clients. Our local team observes that this is likely not primarily due to restrictions, but rather due to economies of scale and price competition.

Soft-dollar arrangements (where a fund company trades with a brokerage firm in exchange for free research, hardware, software, and so on) will be severely restricted by the implementation of MiFID II in January 2018. This directive requires that soft-dollar arrangements be used for the benefit of investors and be disclosed, and that managers seek best execution of trades. Sweden allows soft-dollar arrangements that adhere to these restrictions and requires that these be disclosed to investors.

There is no Swedish limit on funds investing in securities issued in foreign countries. Funds registered in compliance with UCITS V can be marketed to Swedish investors. Foreign-domiciled funds easily obtain regulatory approval and are broadly distributed.

The pension system in Sweden encourages individuals to invest in funds in order to provide for their own wealth in retirement. Since 1995, individuals in Sweden are compelled to contribute 2.5% of their taxable employment income into a publicly managed defined-contribution plan called "premiepension" at Pensionsmyndigheten (PPM), which is managed by a government agency. Individuals can choose to self-direct PPM accounts, although a government default investment is available for those who do not choose to self-direct their PPM savings. Most employers also provide defined-contribution pension savings that can be invested in mutual funds or in life insurance companies. Since January 2016, additional investments into individual pension savings accounts or individual unit-linked pension accounts are no longer tax deductible for individuals, but incentives remain for employers to contribute to employee pensions.

Unit-linked insurance savings in mutual funds have been available since December 1990 with a fixed annual tax (based on average government borrowing cost, only 0.375% of assets during 2017). These insurance savings accounts were complemented with the new Individual Saving Account (ISK) in January 2012, having the same low taxation as insurance savings but without extra fees. An additional advantage of ISK is that these accounts are easy to transfer to another ISK institution.

The fund choices available within insurance wrappers, ISK, and PPM are nearly identical to normal taxable investments, but shareholders have restricted rights compared with taxable investors. Investors in Sweden can defer taxes on interest and dividends earned within funds if they choose accumulating share classes. Capital gains taxes only apply to funds in Sweden upon the liquidation of fund shares.

Upon liquidation, capital gains are subject to a capital income tax rate that is different from the earned income tax rate in Sweden. Investment funds receive the preference of income accrual without ongoing taxes, but there is a 0.12% tax annually (30% tax on a 0.4% deemed income return) upon the beginning balances in investment funds, called the deemed income tax.

Only 13% of mutual fund savings in Sweden were subject to traditional 30% capital gains tax at the end of 2016, according to [fund industry statistics](#). For this small minority, on a hypothetical investment earning 6.29% pretax, the aftertax annualised returns are 3.57%—an annual reduction of 2.72%. With ISK, the aftertax returns are probably higher (annual tax is only 0.375% during 2017), but this depends on future risk-free interest rates and on the length of the savings (the annual ISK tax gives less accumulation advantage).

Most goods and services are subject to a value-added tax, but it is common for funds to set up legal structures that mitigate this on fund management fees.

Disclosure

As a member of the EU, funds in Sweden are compliant with UCITS. The Key Investor Information Document (KIID) is required to pertain to only one fund at a time, be two pages long, and be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardised scale of between 1 and 7, which allows for ease of comparison across funds. According to the Swedish fund association's interpretation of KIID rules, all substantial risks that are not explained by the SRRI (synthetic risk reward indicator) number should be described, as mentioned in 8.1 (b) in KIID regulation.

Swedish regulation is very strict about what charges are allowed in the fund expense statement. The management fee has to cover all costs for administration, marketing, distribution, and similar ongoing charges. This is (of course) limited to funds domiciled in Sweden. The KIID includes an ongoing charge figure, a prospective percentage that excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the ongoing charges percentage. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. In addition, it does not contain any disclosure of trading costs. In summary, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. In addition to ongoing charges within the KIID, fund investors in Sweden with direct investments in January each year receive annual account statements showing the exact sum in monetary terms that went to fees during the previous year.

Sweden, unlike most countries in the survey, does insist that fund companies include an illustration of fees upon a standard investment. This is incorporated in the annual report rather than the KIID. Another difference with many other countries is that most mutual fund annual reports are concise, have high-quality graphic design, and are easily accessible to retail investors. The latest annual report or semiannual reports are required documents that need to be offered at the point of sale.

Both annual reports and the KIID contain past performance for standardised periods (typically the past 10 years) to allow investors to see the performance of the fund over time. The KIID does not include the manager's name, tenure, or holdings details, making it difficult for investors to determine the connection between the manager and fund returns, however annual reports normally do include the fund manager's name. Neither documents include information on fund manager ownership of shares, or "skin in the game."

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end and exchange-traded funds. Other products such as exchange-traded notes, exchange-traded commodities, closed-end funds, and structured products have separate regulations, as they are not considered retail products in Sweden. In Sweden, offering documents must be updated annually even if there is no material change in operations. Funds must publish annual and semiannual reports; certain key information includes as many as 10 prior years of data for comparison purposes. The manager's commentary within this document is generally insightful for investors and helps connect investment decisions to fund returns.

Financial statements for funds domiciled in Sweden consolidate almost all ongoing fund expenses into a single management fee. All costs associated with fund assets are attributed to this classification, including depository charges, legal fees, advisor remuneration, as well as marketing and distribution. Only performance fees are itemised. This simplifies the calculation of ongoing charges but prevents investors from determining if the fund is being a reasonable steward of investor assets for other operating costs. Trading commissions paid by the fund are available within the annual reports, and investors may use the data to estimate trading costs. Finally, EU regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund. These appear in the ongoing charges, but not within many financial statements.

Under MiFID II, Sweden will have new legislation from January 2018 that will restrict and scrutinise commission payments for third-party advice. According to MiFID II, third-party payments will only be allowed if (a) they are designed to increase the quality of the service, and (b) the conditions to act honest, fair, and professional to help the client are not diminished by the payment. At the time of writing, Finansinspektionen had not made public further details regarding when and how the new rules will be applied.

UCITS funds are required to disclose full portfolio holdings to the public quarterly. Special funds, frequently considered to be hedge funds, are only required to provide holdings to the regulator. Nearly 80% of funds publish their holdings monthly to Morningstar.

To get permission to start a fund management company, a Swedish fund management company has to list the name of all important employees, including portfolio managers for each fund. Around 95% of Swedish fund companies continue to publish names in annual reports, but there is no explicit requirement, although it seems likely that the regulator does want portfolio manager names to be published, since this is needed to get permission to start the operation.

Although it is not a requirement to list named managers and tenures, in practice a majority of funds publish this information in shareholder reports. No information on the compensation of individual managers or their investments alongside investors is available. Although the compensation of managers is not directly available, the Swedish government publishes the tax information of all citizens including wealth, taxable income, and taxes paid on a government website. The lack of ownership disclosure carries over to the board and the management company, which also do not provide this information.

Fees and Expenses

In Sweden, stated loads are negotiable with the sales agent. Historically, it has also been rare for investors to pay financial advice fees other than through commissions or retrocessions. It is likely that MiFID II will facilitate an increase in clarity with regard to payment for financial advice through overt unbundled payments. Nearly 75% of funds available for sale in Sweden currently report front loads, but the number of investors paying front loads in practice is much lower since the load can be waived fully or partially by the distribution company. Fewer than 25% of funds domiciled in Sweden report front loads, and funds without loads and retrocessions are widely available, constituting a large part of investor assets.

PPM accounts get a rebate of between 65% and 90% on all fund fees above a 0.15% total expense ratio per year. Also, most employee compulsory pension savings are negotiating rebates on annual charges that are not reflected in unique share classes. About half of all mutual fund investments in Sweden are through PPM or other compulsory pension savings, so the figures below will overstate the net costs that investors in Sweden experience in reality.

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

Swedish individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with a European passport. Our local research team notes that due to the high transaction costs in brokerage accounts for foreign securities, most investors only choose fund share classes denominated or

traded in Swedish krona. Since the choice of currency is a discretionary piece of the investment process, the following estimates include all share classes investors can purchase. The expense ratios of funds domiciled in Sweden are generally lower than those offered by foreign fund managers.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS 1.03%	Equity / AFS 1.60%	Allocation / AFS 1.43%
Fixed-Income / Domiciled 0.47%	Equity / Domiciled 1.23%	Allocation / Domiciled 0.96%

Sales

Swedish investors have four fund sales channels widely available: banks and insurance companies, traditional brokerage firms, direct sales, and fund supermarkets. The bank and insurance company channel dominates fund sales. It is estimated that between 50% and 80% of funds in Sweden are sold through a distributor with an open-architecture system. Recently, more distributors have been offering funds from outside advisors, although most distributors still focus on promoting in-house funds. Mutual funds domiciled in Sweden rarely require large investment minimums.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is prohibited in Sweden. Additionally, in many instances, consumers in the EU have cooling-off periods during which certain purchases can be canceled. Advisors and other fund salespeople in Sweden must follow law 2002/03:133 s 15-17 about financial advice. According to this law, advisors must follow "common practice in the financial industry." The suitability requirements of MiFID appear to be stronger than Swedish legislation. Advisors have to provide investors written documentation of the items discussed in their meetings, and conflicts of interest are disclosed here, but this disclosure may not be clear or highlighted sufficiently to investors in some cases.

Swedish regulations do not specifically prohibit directed brokerage arrangements (fund managers directing portfolio transactions to a brokerage firms in exchange for promoting their funds). But MiFID requires best execution, so these transactions are indirectly banned on a Pan-European basis.

In Sweden, there has been no regulation banning the practice of compensating advisors (either monetarily or through awards) for selling specific funds. However, across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice. The possibility of sales contests to motivate the general sales of funds is allowed with little known oversight or guidance.

Investors in Sweden can occasionally find mutual fund articles in their newspapers.

Data in this area is not easily sourced, but it appears that exchange-traded fund use is predominately limited to institutional investors currently, although it is likely that the end investor in some of these products will be retail clients.

Switzerland

Regulation and Taxation

Switzerland's environment for retail fund investors has improved markedly in the past few years. Most notably, there has been an increasing shift from commission-based fund sales—which were often marked by sales contests—to a fee-based advisory model that gives investors a better idea of what they are paying for, and importantly, involves more focus on investors' entire financial situation rather than advisors simply pushing individual products.

The main regulator for investment funds in Switzerland is the Swiss Financial Market Supervisory Authority (FINMA). Established in 2009, FINMA combines three previous agencies: the Federal Office of Private Insurance, the Swiss Federal Banking Commission, and the Anti-Money Laundering Control Authority. The laws that set the regulatory guidelines of funds are called the Collective Investment Schemes Act (CISA), the Ordinance on Collective Investment Schemes (CISO), and the FINMA Ordinance on Collective Investment Schemes (CISO-FINMA). In addition to this regulation, the code of conduct of the Swiss Funds Association (SFA) provides additional self-regulation for its members. Self-regulation is an established, government-authorised practice in Switzerland. FINMA is also the agency responsible for the regulation of fund advertising and fund sales practices.

For more than a decade, much of the regulation activity in Switzerland has been aimed at aligning the country with European Union law. The CISA law of June 2006 brought local legislation in line with the Undertakings for Collective Investments in Transferable Securities (UCITS). In 2013, a number of the laws mentioned above were revised to become compatible for fund distribution into the EU. And most notably, the simplified prospectus was replaced by the Key Investor Information Document (KIID), mirroring changes that occurred in 2012 in the EU.

Although Switzerland is not a member of the EU, it generally implements important elements of the EU regulatory framework. Therefore, it is likely that the sweeping changes included in the EU's Markets in Financial Instruments Directive (MiFID) II, which has a 2018 compliance deadline, will be implemented in Switzerland as well, with beneficial effects for investors. This was the impetus behind recent legislation: For example, at the beginning of 2019, fund distribution, which is now regulated under the framework of the CISA, as revised in 2013, will come under the framework of new laws known as Finig and Fidleg, which are largely designed to align Swiss regulations with MiFID II, though with some fairly minor differences.

Most enforcement actions are public in Switzerland, and many actions can be queried in multiple languages on the FINMA website.

Regulations require funds to be audited by an independent party at least once a year, and fund assets must be kept by a custodian, though the custodian may be an affiliated company.

Swiss regulations and self-regulations previously allowed soft-dollar arrangements, in which a fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment, as long as such arrangements were disclosed. But under the new MiFID II rules, which Switzerland will likely follow, soft-dollar arrangements will be prohibited.

In Switzerland, funds structured as companies with variable capital are required to have a board of directors, with no requirement that the directors be independent. However, the most common structure for Swiss funds doesn't require a board of directors. These funds, known as Fonds Commun de placement, or FCP, are based on a collective investment contract between the investor and the fund management company and custodian bank.

In Switzerland, there is no limitation on funds investing in securities issued in foreign countries. Foreign-domiciled funds are allowed to register for sale in Switzerland and are common, though they are not automatically registered and must register separately in Switzerland in addition to their domiciled country.

The Swiss pension system is based on three pillars: a state pension, an occupational pension, and a private pension. The third pillar is a personal savings account designed for retirement purposes. It is meant to be an optional supplement to the mandatory first and second pillars. Only banks and insurance companies are authorised to market the third pillar. Within this pillar are fixed accounts (labeled as 3a) and flexible accounts (3b). Pillar 3a is open to the employed and self-employed, and there are various types, including bank savings accounts, life insurance policies, and fund savings plans. Contributions can be deducted from taxable income up to the statutory maximum amount. No wealth, income, or withholding tax is due throughout the entire term of the savings plan. On payout, the capital is taxed at a reduced rate separately from the rest of a person's income. The regulation of the funds available in retirement plans is identical to taxable investments in Switzerland, but as these are private pension plans the choices are limited.

Swiss citizens pay a variety of tax rates with the major portion based upon the canton in which they live; for our analysis of taxation, we looked at typical rates estimated by major accounting firms. The canton of Zurich has marginal rates that are in line with the global accounting firm's estimate, and since Zurich is home to more than one eighth of the Swiss population, we have applied this as a proxy for tax rates. Swiss investors are responsible for taxes on interest and dividends earned within funds annually, at their income tax rate. There are no capital gains taxes for individual investors in Switzerland, nor are there any

other taxes that apply to mutual fund investments, except for a stamp duty tax on funds not domiciled in Switzerland or Liechtenstein. In our hypothetical tax scenario, an annualised pretax return of 6.29% is reduced by 0.34% annually.

In Switzerland most goods and services are subject to a value-added tax. Collective investment schemes regulated under the CISA are exempt.

Disclosure

Switzerland has been aligning its regulations with European Union standards (and this process is likely to continue as the EU adopts MiFID II, specifically with a Swiss directive known as FinSA). As part of the CISA revision, for example, the KIID replaced the simplified prospectus. The KIID is required to pertain to only one fund at a time and is typically two pages long. The quality of the writing in the KIID varies considerably; occasionally the information is understandable even for general investors, but often these documents are filled with investing and legal jargon. Risks are listed, by requirement, but the vernacular is especially legal in nature. The document includes the expected ongoing charges and standardised performance information. There is no monetary illustration on the impact of fees, nor information on trading costs. The KIID also does not generally include any portfolio holdings information, but that information can be found elsewhere. No information on portfolio managers is required, though it is sometimes provided.

While the KIID is the primary point-of-sale document that investors see, there is additional disclosure available to interested parties. All retail investment products in Switzerland follow the same disclosure regulations. Full prospectuses are required in addition to the KIID, but the full document is only required to be updated if terms or strategy are amended. The simplified document is where the time-sensitive material resides.

Funds must file shareholder reports semiannually; these contain financial statements with a prior-year comparison. Management discussion of results in the semiannual or annual reports is typically generic but often does provide commentary on the actions taken by the portfolio managers. The information to calculate the ongoing charge is within the financial statements, and presented in total, not on a per-share basis. Within the financial statements, the management fee, performance fee, and third-party depository and administration fees are itemised, but marketing and distribution fees and retrocessions are within the management fee. The statements also list the purchase and redemption fees clearly.

Total expense ratios for funds in Switzerland are calculated in a uniform manner and meet International Organization of Securities Commissions criteria for standardised expenses. The listed figures for both prospective and historical ongoing charges include acquired fund expenses for fund-of-funds structures. Funds are required to publish full holdings information semiannually. Funds have 120 days after the end of a period to release their portfolio holdings, a relatively lengthy amount of time.

There is no requirement to provide the name or tenure of the portfolio manager in any document, although names and tenure are sometimes available on firm websites and monthly factsheets. Morningstar's database shows manager names for 65% of funds domiciled in Switzerland. There is no information on compensation or whether the managers or the board members invest in their funds alongside shareholders.

In Switzerland, a joint venture between the SFAMA and SIX Swiss Exchange hosts a searchable website containing fund literature and performance information of funds authorised for sale in Switzerland, but it's not complete. The website is in German, French, and English, but fund literature is only in the languages provided by the fund.

Fees and Expenses

In Switzerland, stated loads are negotiable with the sales agent.

Investors in Switzerland sometimes pay for advice outside of commissions and retrocessions, known as a fee-based model. These cases currently make up a moderate percentage of investor accounts, but that percentage is growing as the fee-based model has been implemented by major financial institutions such as UBS, Credit Suisse, and Julius Baer. However, it remains difficult for investors to purchase funds without any advice fees at all.

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

Swiss individual investors have the choice to invest either in locally domiciled funds or in foreign-domiciled funds that register to distribute in Switzerland.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS	Equity / AFS	Allocation / AFS
1.06%	1.70%	1.62%
Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
0.15%	0.37%	1.27%

Sales

The sales channels widely available to Swiss investors are banks and insurance companies, independent advisors, and fund supermarkets in online brokerages. Of those, banks and insurance companies remain dominant. Between half and three fourths of funds in Switzerland are sold through a distributor with an open-architecture system. Mutual funds in Switzerland generally do not have investment minimums.

Investors must receive a KIID (short prospectus) before purchasing a fund. Advisors are required to act as fiduciaries and place the client interests ahead of their own, and they must disclose all conflicts of interest.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are prohibited in Switzerland. Article 22 of CISA bans agreements that compel funds to direct transactions to a specific counterparty.

Sales practices in Switzerland have undergone a significant change. Historically, the salesforce was focused on selling individual products, and bonuses for fund sales—usually monetary—were common. But today, offering services and investment solutions is the core of banks' retail strategies. Thus, the product-centred, bonus-heavy culture is no longer common. As noted above, fee-based advice models are on the rise in Switzerland.

Along with other outlets where articles on investing can be found, the leading newspaper in Switzerland carries a weekly article on personal investing, in which mutual funds are frequently featured. In all the outlets, the importance of assessing expenses and the benefits of low-cost investing for long-term success is frequently emphasised.

Taiwan

Regulation and Taxation

In Taiwan, the Financial Supervisory Commission (FSC) is the regulatory body responsible for supervision of financial markets and financial-services enterprises via its Securities and Futures Bureau (SFB). It also regulates fund advertising and sales practices. The mission of the FSC is to “promote sound business management at financial institutions, maintain financial stability, and facilitate the development of financial markets.” The laws and regulations governing mutual funds are:

- ▶ Securities and Exchange Act
- ▶ Securities Investment Trust and Consulting Act
- ▶ Regulations Governing Securities Investment Trust Funds
- ▶ Regulations Governing Offshore Funds
- ▶ Regulations Governing Information to be Published in Prospectuses by Securities Investment Trust
- ▶ Enterprises Offering Securities Investment Trust Funds

The mutual fund industry is also self-regulated by the Securities Investment Trust & Consulting Association (SITCA). Most funds are members of SITCA, and therefore subject to the Self-Regulatory Code of SITCA, which stipulates that kickbacks of commission charges and other interests from security brokers cannot be accepted.

The Securities Investment Trust and Consulting Act governs all fund industry operations in Taiwan. All investment operations are overseen by the FSC. Most enforcement actions are public in Taiwan. “The Securities Investment Trust and Consulting Association Guidelines for Advertisements and Business Activities Performed by Members and their Sales Agents” regulates and supervises fund advertisement.

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

Soft-dollar arrangements, in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment, are prohibited in Taiwan.

In Taiwan, funds are not required to have boards of directors.

Taiwan allows the sale of funds domiciled in other countries, but they do not receive automatic registration and must register separately. Foreign-domiciled funds can easily obtain regulatory approval, and are broadly distributed Taiwan.

To encourage individuals to invest toward retirement, the Taiwanese government introduced the Labor Pension Fund, the only tax-deferred investment available for retirement savings. The Labor Pension Fund is described as follows:

“The medium-and-long-term goal of the Fund is to have the rate of return of the Fund on a 5-year moving average be higher than the legally guaranteed rate of return plus the annual increase of the consumer price index during the same period.”

However, investors cannot make their own fund choices within the retirement scheme.

Investors in Taiwan pay a capital income rate on interest income within funds. There is a separate dividend tax rate paid annually, but domestic dividend taxes are reduced by an imputation system crediting corporate taxes paid for domestic corporations. There are no capital gains taxes in Taiwan and no additional tax benefits for fund investors. There are no other taxes applied on fund investments in Taiwan. The aftertax annualised return on a hypothetical investment with a pretax return of 6.29% is 5.51%. Fund management services in Taiwan are not subject to a value-added tax or services tax.

Disclosure

There are simplified prospectuses for both onshore and offshore funds sold in Taiwan; the document is called the Simplified Prospectus for onshore funds, and the Investor Brochure for offshore funds. In both cases, they are required to pertain to one fund at a time and are typically between three and four pages in length. The material is written in plain language that is clear to an average investor. The investment strategy description is sufficient for the average investor to determine the strategy of the fund. The risk section of the simplified prospectus covers general and materially relevant risks in a manner that can be easily understood by retail investors. The document does not contain a monetary illustration of fees based on an assumption of standard monetary value and return, but it does contain expense ratios over the past five years. Top 10 holdings can be found in the Investor Brochure for offshore funds, but not in the simplified prospectus for onshore funds. The document also contains standardised returns, and it is readily available at point of sale to investors

Regulation requires uniform presentation of fees within fund literature. The expenses within the annual report are presented in total as a part of the financial statements. It allows investors to identify fees related to management, custody, administration, performance, purchase and redemption, and trading,

and somewhat for marketing and distribution. However, it does not include fees of underlying funds invested.

Open-end funds and exchange-traded funds are subject to identical disclosure requirements in Taiwan. These are the only investment products considered retail. The financial statements within shareholder reports contain a prior-year comparison; these are contained within the annual report. Local regulation requires that the full prospectus and the simplified prospectuses be updated quarterly. Management's discussion of performance within reports is not required but is typically provided.

Taiwanese mutual funds are required to disclose material holdings to the public on a quarterly basis. They must disclose long and short positions in exchange-traded equities and bonds, as well as derivatives, but not private investments. However, position sizes smaller than 1% are not disclosed in these quarterly reports, unless the top 10 holdings contain such positions. Under regulation, funds have five days following the end of the period to upload portfolios to SITCA, which publishes portfolio information on the tenth business day. Furthermore, funds typically release portfolio holdings data to Morningstar and other investors within 30 days.

Funds in Taiwan are required to provide the name and tenure of the portfolio manager. This information is not available in the simplified document, but can be found in the full prospectus and on the fund's website. All funds voluntarily provide manager names to Morningstar. The compensation structures of managers are also disclosed, but there is no information on managers' investment alongside investors.

The SITCA, the Taiwan Depository and Clearing Corporation, and the Chinese National Futures Association together maintain an electronic database called "Fund Clear." Fund Clear contains public records of authorised offshore securities investment trusts, futures trusts, and offshore mutual funds. Investors can use Fund Clear to view a fund's abridged prospectus, full prospectus, and current and historical annual reports. For onshore funds, SITCA's website discloses a fund's transactions report, turnover ratio, as well as top five holdings on a monthly basis and full holdings on a quarterly basis. In addition, the Market Observation Post System by the Taiwan Stock Exchange serves as a platform where fund companies file full and simplified versions of annual and quarterly reports.

Fees and Expenses

In Taiwan, stated loads are negotiable with the sales agent. More than 75% of funds available for sale in Taiwan report charging a front load, and more than 75% of locally domiciled funds report front loads. It is also rare for investors to pay financial-advice fees other than through retrocessions or commissions, and investors in Taiwan find it quite difficult to purchase funds with no retrocessions or trailer fees. These funds are a minimal part of investor assets.

Funds domiciled in Taiwan with a government classification as a futures fund and foreign-domiciled funds in Taiwan are permitted to charge management fees with an asymmetrical performance

component without an equal reduction in fees for underperformance. Fund documents disclose relevant terms of the performance fee such that an investor can accurately estimate expenses.

Taiwanese individual investors in Taiwan have the choice to invest in locally domiciled funds as well as foreign funds that register to distribute in Taiwan. The expense ratios of funds domiciled in Taiwan are typically lower than those offered by foreign fund sponsors.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS	Equity / AFS	Allocation / AFS
1.45%	1.84%	1.85%
Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
1.45%	1.91%	1.32%

Sales

Taiwanese investors have most sales channels widely available, including fund supermarkets, online brokerages, directly from the fund houses, and banks and insurance companies. The fund supermarkets along with bank and insurance company sales channels dominate fund sales in Taiwan. Taiwan's first industry-backed online fund supermarket, Fund Rich, was launched on 31 August, 2016, to provide an additional avenue to distribute funds. Taiwan Depository & Clearing Corporation owns a 60% stake in Fund Rich while the remaining 40% is held by local and global fund houses. It is estimated that more than 80% of funds in Taiwan are sold through a distributor with an open-architecture system. Between 50% and 75% of locally domiciled products are offered by the 10 firms with the largest lineups.

Mutual funds in Taiwan generally have strict investment minimums, but these are frequently waived for investors in an automatic investment program.

Investors must receive a prospectus before buying a fund.

Advisors in Taiwan are required to act as appropriate fiduciaries and are subject to fiduciary duty tests that require them to place the interest of investors ahead of themselves. Advisors are also required to disclose any potential conflicts of interest to their clients.

Directed brokerage arrangements (where fund managers direct portfolio transactions to particular brokerage firms in exchange for promoting their funds) are prohibited in Taiwan. The Self-Regulatory Code of SITCA stipulates that members have written agreements stating that kickbacks of commission charges and other interests from security brokers cannot be accepted.

In Taiwan, the practice of using incentives to motivate general sales of funds and the practice of compensating advisors (either monetarily or through awards) for selling particular funds is not allowed.

Investors in Taiwan can find mutual fund articles in their newspapers, websites, and other media sources on a daily basis.

Exchange-traded funds are available and marketed to retail investors and advisors in Taiwan. Local retail investors primarily use ETFs listed on the local exchange. The menu of ETFs available on the local exchange expanded quickly in the past two years, in particular, with the introduction of leverage and inversed ETFs since late 2014. ETFs available for sale in Taiwan now cover a range of asset classes, including domestic equity, global and regional equity, bonds, and commodities. Local advisors have limited use for ETFs in building client portfolios in Taiwan. Instead, ETFs are used primarily by investors that are directly managing their own portfolios. Though open-end mutual funds are the most popular fundlike product for investors to own, our analysts find that ETFs are quickly growing in popularity.

Thailand

Regulation and Taxation

In Thailand, the Securities and Exchange Commission (SEC) is the regulatory body responsible for the supervision of the securities and futures sectors. It also regulates fund advertising and sales practices. The mission of the SEC is to “develop and supervise the Thai capital market to ensure efficiency, fairness, transparency, and integrity.”

In addition to the SEC, licensed asset-management companies in Thailand are represented by the Association of Investment Management Companies (AIMC), a self-regulatory and advocacy body. The main objectives of the AIMC are as follows:

- ▶ To serve as the center of companies licensed to operate investment management businesses.
- ▶ To foster the development of and provide protection for investment management businesses.
- ▶ To promote and improve professional standards of investment management businesses in the interests of the members and the general public.
- ▶ To promote a saving culture among the public to enhance the financial stability of the country as a whole.
- ▶ To cooperate with government agencies and/or organisations and/or agencies relevant to or in charge of controlling and/or monitoring investment management business on regulatory initiatives for not only investment management businesses but also all other types of securities businesses.
- ▶ To cooperate with the Stock Exchange of Thailand (SET), futures markets, or trading centers of securities or any other assets, listed companies, authorised companies, any agencies or institutions for the development of not only investment management businesses but also all other types of securities businesses.
- ▶ To facilitate cooperation among the member companies in solving problems associated with the investment management business, and compromise of disputes related to the investment management business among its members or between its members and third parties.
- ▶ To set out rules, regulations, or code of ethics for the member companies and to ensure their compliance for smooth operations of investment management companies.
- ▶ To provide support for research, study, and dissemination of academic information and news and

publicise information about the securities business with particular focus on investment management for the benefits of the members and the general public.

- ▶ To encourage unity, cooperation, and development among the member companies.
- ▶ To provide social services and contribution as well as other necessary and appropriate activities that will ensure the achievement of AIMC objectives.

The securities industry is governed by The SEC Act B.E. 2535, enacted in 1992. This comprehensive legislation is the source of all specific regulations. The SEC is the sole regulator of investments, so there are no conflicts between regulators. Most enforcement actions are made public in Thailand, and the regulator also sets standards for and supervises fund advertisements.

All countries in this survey, including Thailand, require funds to be audited by an independent party at least once a year. In Thailand, fund asset custody is the responsibility of the mutual fund supervisor. The law requires that the mutual fund supervisor be independent of the fund manager, and the two organisations cannot be subsidiaries of the same holding company.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment. This is an accepted practice in Thailand, but funds with these arrangements typically disclose them. There is a restriction requiring that soft-dollar arrangements benefit shareholders.

In Thailand, fund companies have supervisory boards, but boards do not exist at the fund level. This role fulfills many of the responsibilities of boards of directors in other countries. The mutual fund supervisor must be independent of the management company, and, as mentioned above, the mutual fund supervisor is also the custodian.

In Thailand, funds can only invest in securities issued in a foreign country if the relevant country is a member of the International Organisation of Securities Commissions, or, when purchasing a fund, assessed under the Financial Sector Assessment Program. Additionally, funds investing outside of Thailand are required to publish additional risk disclosures related to foreign investment.

In Thailand, foreign-domiciled funds must separately register for sale to Thai investors. Generally, foreign funds register a feeder fund in Thailand. The feeder fund will have as its only investment a foreign-domiciled master fund. Foreign-domiciled funds are not directly available in Thailand with the following exceptions. The Association of Southeast Asian Nations (ASEAN) has adopted rules for a regional collective investment scheme regime. Launched in July 2012 with an accredited investor regime, the framework was expanded to all investors in August 2014. Retail investors now have open access to funds issued in Malaysia, Thailand, and Singapore. Only a handful of foreign funds currently have registered for sale in Thailand, contributing to the preference of local-domiciled funds by Thai investors. In addition investments in foreign-domiciled funds are also caught by domestic

capital restrictions that limit the amount of money that can be placed in these vehicles.

In Thailand, there are three tax-preferred vehicles that allow investors to save for retirement with savings that is exempt from income taxes: Provident Funds, Retirement Mutual Funds (RMFs), and Long-Term Equity Funds (LTFs). Provident Funds are defined-contribution plans, with employers being able to designate managers of the plan and individuals providing their own investment policy statements. Provident Funds and RMFs must be held until retirement age, but LTFs can be withdrawn after seven years (five years for units purchased before 2016). Individuals are allowed to contribute and deduct from income the lesser of 15% of wages or THB 500,000 into these savings vehicles annually. Additionally, employer contributions and distributions to the Provident Fund are exempt from taxes. Funds held within one of these structures are subject to all the regulations of the SEC, but not all funds qualify as RMFs, LTFs, or Provident Funds.

Citizen taxpayers in Thailand are responsible for taxes on interest and dividends earned within funds on an annual basis; taxes are withheld at a capital income rate. Fund investments in Thailand are exempt from capital gains taxation. Additionally, investments in certain LTFs qualify for a tax deduction. Fund investments are exempt from any other taxation in Thailand. In our hypothetical investment scenario, an annualised pretax return of 6.29% is reduced by 0.33% annually, resulting in a 5.96% annualised aftertax return.

Most goods and services in Thailand are subject to a value-added tax; fund investment services are subject to this tax.

Disclosure

The Thai simplified offering document is the summary prospectus. This document continues to evolve, with the SEC now requiring the use of charts and tables to help investors better understand complex data. The following data points are also now required: portfolio turnover ratio, maximum drawdown, the credit ratings of securities invested, calendar-year returns, and the disclosure of conflicts of interest. The simplified prospectus is required to only apply to one fund at a time and has been reduced from approximately 20 pages historically to a range of five to 10 pages. The document is written in plain language that is free of jargon, and the strategy description is sufficient to help an investor understand the exact investment philosophy of management. The risks section is also adequate. Risks are explained clearly and typically cover both general investing and fund-specific risks.

The summary prospectus publishes the last year's expense ratio. It does not contain a monetary illustration of fees or any information on trading costs. The summary prospectus does contain returns for standardised periods. Information on the portfolio managers' names and tenures is provided. Portfolio sector breakdowns are included, and funds are required to include the top five holdings, asset allocation, sectors, credit quality, and duration.

All retail investments in Thailand are subject to the same disclosure requirements. Funds are required to semiannually update (money market funds are required to quarterly update) their offering documents in addition to shareholder reports. Financial statements within shareholder reports include several years of comparison and include standard deviation and risk-adjusted performance. Funds are required to publish both semiannual and annual reports. Management's discussion of performance within reports is typically generic however some managers do provide good discussion on how portfolio returns are impacted by specific market events and trades.

Within the financial statements, the monetary costs that compose the expense ratio are disclosed in total and on a per-share basis. These generally contain enough detail so that investors can determine which portion of fees pays for which expenses. Explicit trading costs are disclosed in annual reports, so investors know how much the fund pays in brokerage commissions. Thai rules require that fees and expenses are presented in a uniform manner such that investors can easily compare one product with another.

Previously, funds were required to publish full holdings in conjunction with the semiannual shareholder reports. From 2015, this standard has been improved to quarterly disclosures after a 60-day lag.

Funds typically disclose the name of the portfolio manager in annual reports, and information on the start date of the manager was introduced in 2015. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure carries over to the board equivalent and the management company, which also do not provide this information.

In Thailand, there is a centralised website with current and complete fund literature accessible by individual investors.

Fees and Expenses

In Thailand, stated loads and breakpoints are not negotiable with the sales agent. Paying for advice outside of fees and expenses is a known practice but rare in Thailand. Between 50% and 75% of funds available for sale or domiciled in Thailand report charging a front load. Open-end funds available to retail investors in Thailand that do not include either a front load or trailer commission are available but are difficult for investors to locate or invest in and are a minimal portion of investors' portfolios.

The SEC permits funds to charge performance fees on a symmetrical basis (fulcrum fees), but to date it is not a known practice for funds to charge these fees.

Individual investors in Thailand have the choice to invest in locally domiciled funds as well as foreign feeder funds domiciled in Thailand. While some foreign funds are available for sale they are a very small part of the market.

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled funds:

Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
0.47%	1.74%	1.36%

Sales

In Thailand, open-end mutual funds are the most popular fund like product for investors to own. Investors in Thailand have most sales channels widely available, including fund supermarkets, traditional brokerage firms, direct from the fund, and banks and insurance companies. Banks dominate fund sales in Thailand. It is estimated that less than 20% of funds in Thailand are sold through a distributor with an open-architecture system.

Mutual funds in Thailand generally have strict investment minimums that are attainable by many retail investors.

“Off-the-page” advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is prohibited in Thailand, but it is unclear how frequently this is enforced. Advisors are expected to consider all products when making a recommendation under a “suitability” or “reasonable basis” test, but there is no formal regulation. Advisors must disclose any potential conflicts of interest.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) is permitted in Thailand provided the transactions benefit fund shareholders.

In Thailand, the practice of using sales contests to motivate general sales of funds and the practice of compensating advisors (either monetarily or through awards) for selling particular funds is allowed with strict regulations.

Investors in Thailand can find mutual fund articles in financial newspapers on a daily basis. These articles almost never mention mutual fund fees when they are high, and they rarely promote long-term investing.

Exchange-traded funds listed on the local exchange are available and marketed to retail investors and advisors in Thailand. There are multiple providers of ETFs listed for sale on the Thai exchange covering domestic equity and commodities. They have only attracted limited use.

United Kingdom

Regulation and Taxation

There is one main regulator in the United Kingdom, the [Financial Conduct Authority](#) (FCA). The FCA was established in April 2013, replacing the Financial Services Authority after the passing of the Financial Services Act of 2012. Per the FCA website:

We aim to make financial markets work well so that consumers get a fair deal. We:

- ▶ secure an appropriate degree of protection for consumers
- ▶ protect and enhance the integrity of the UK financial system
- ▶ promote effective competition in the interests of consumers

In addition to the FCA, some regulations are handled by the Prudential Regulation Authority and the Bank of England. Most fund operations are regulated and enforced by the FCA. Additionally, as a member of the European Union, the U.K.'s laws conform to EU directives, including the Undertakings for Collective Investments in Transferable Securities (UCITS) V and the Markets in Financial Instruments Directive (MiFID).

In addition to a restructuring of the financial regulators, the U.K. has changed a number of laws relating to the fund industry in recent years. It has adopted UCITS V and the Alternative Investment Funds Managers Directive (AIFMD), but more notably it implemented the Retail Distribution Review (RDR). This intends to improve the investor experience in three areas:

- ▶ Improve the clarity with which firms describe their services to consumers;
- ▶ Address the potential for advisor remuneration to distort consumer outcomes; and
- ▶ Increase the professional standards of advisors.

In force for approximately two years, the rules associated with RDR are explicitly designed to eliminate any linkage between fund selection by advisors and the payment of commissions by fund houses. As of 1 January, 2013, advisors, unless they elect only to offer "basic advice," are banned from receiving commission payments from fund houses. Independent advisors may not elect this option, which is only available to "restricted" advisors. The main effects are that funds now offer a class free of all commissions (most equity funds, for example, now have an ongoing charge of 1.00%, compared with

1.50%-plus previously) and that most investors are expected to pay advisors directly for their services. In addition to ensuring that investor outcomes are not skewed by incentives provided by funds, the proposals have increased transparency in fees such that investors are more aware of what they pay for investment advice versus fund management.

As of its most recent annual report the FCA, had a total of 2,511 staff, of which around 600 were in supervision and approximately 425 were in enforcement; this is for a nation of approximately 64 million people. Some enforcement actions are public in the U.K.

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

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment. As a member of the EU, the U.K. complies with MiFID, which requires that soft commission arrangements be used for the benefit of investors and be disclosed, and that managers seek best execution of trades. The Conduct of Business Sourcebook (COBS) specifically outlines permissible soft-dollar transactions. The U.K. allows soft commission arrangements that adhere to these restrictions and requires that they be disclosed to investors. However, this will change next year with MiFID II

Among funds domiciled in the U.K., there are two primary legal types of open-end collective investments: open-end investment companies (OEICs) and authorised unit trusts (AUTs). OEICs are required to have boards of directors. However, there is no requirement that the board be independent, and boards can and often do consist of a single member: the authorised corporate director (ACD), which is typically the fund company itself. AUTs are governed by trust law and must have an independent entity as a trustee. Closed-end funds, known as investment trusts in the U.K., must have an independent board of directors.

In the U.K. there is no limitation on funds investing in securities issued in foreign countries.

The U.K. allows funds registered in compliance with UCITS to be marketed to British investors. Foreign-domiciled funds are somewhat available in the U.K. However, many independent advisors are not familiar with foreign funds and do not offer these to investors, leading investors to prefer funds managed by U.K.-based fund sponsors.

In the U.K., there are tax incentives for individuals who invest for retirement in a pension scheme and Individual Savings Accounts (ISAs). A pension scheme is simply a type of savings account set up to provide income in retirement, with limitations on when money can be withdrawn and how much can be

taken out before tax. Both employer-sponsored and personal pension plans are common in the U.K. Contributions by individuals into personal pension accounts are made net of tax, but the pension provider will claim back the tax paid from the government at the basic rate, and higher-rate taxpayers receive further relief via self-assessment. These tax exempt contributions have reduced over time. From April 2011 they were GBP 50,000 per year. In April 2016, the maximum that could be invested in a pension fund before tax was reduced to GBP 40,000 of earned income after a transitional year, and the annual limit reduces further for those with an income over a threshold GBP 110,000 (excluding pension contributions) or GBP 150,000 (including contributions). So for every GBP 2 above the threshold the annual allowance falls by GBP 1, down to a GBP 10,000 floor. For individuals with no earned income, the annual limit on contributions is GBP 3,600. While annual allowances are dependent on an individual's earnings, everyone has the same lifetime allowance of GBP 1 million. When an individual's aggregate pension assets exceed GBP 1 million, further contributions are not entitled to tax relief. Pension plans have different regulations from taxable funds, but many fund choices are available in both types of accounts.

Investors in the U.K. can use ISAs to minimise the taxes on long-term savings. There are limits to annual contributions (GBP 20,000 for each individual in the tax year beginning April 2017), but assets invested can be removed from ISAs prior to retirement. In comparing the tax treatment of long-term mutual fund investors, we determined that a rational British investor would choose an ISA for a five-year holding period whenever contribution limits permitted. Holdings within ISAs are exempt from taxes on payments, interest income, and dividends. Both long-term and short-term capital gains earned within the fund, and by the investor upon liquidation of fund shares, are generally exempt from further taxation. For our hypothetical, we assumed the investors fund assets are all within the ISA. The resulting tax reduction is 0.91% annually, for a 5.38% annualised aftertax return on a balanced fund with 6.29% pretax return.

In the U.K., investment services are exempt from the country's value-added tax.

Disclosure

As a member of the EU, funds in the U.K. are compliant with UCITS. The Key Investor Information Document (KIID) is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund. These descriptions are somewhat helpful for an experienced investor in comprehending the fund's strategy but can be vague. However, they have greatly improved recently for straightforward strategies. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardised scale that allows for ease of comparison across funds.

The KIID includes an ongoing charges figure, a prospective percentage that excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is

on equivalent terms with the ongoing charges percentage. In practice, this is not uniformly enforced, and investors must often search for details and calculate the amount they would spend on performance fees on their own. In conclusion, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. This was required for U.K. funds prior to the introduction of the KIID. It does not contain any disclosure of trading costs.

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

Across the EU, all investment funds compliant with UCITS are subject to the same minimum disclosure requirements and operating regulations, although local regulators may impose additional requirements for funds sold in their markets. This includes open-end and exchange-traded funds. Other products such as closed-end funds, insurance funds, pension funds, and non-UCITS retail schemes do not fall under the same regulation and therefore have different requirements. In the U.K., fund companies must publish shareholder reports semiannually. The financial statements must be examined by an auditor that is not associated with the asset-management company and published within 120 days after the fiscal year ends. The financial statements within the shareholder reports include comparisons to the prior year. Management's discussion of performance is required information, but it is typically general and does not tie portfolio actions to fund performance.

In shareholder reports, monetary costs used to calculate the ongoing charge are sometimes provided, but they are not in any uniform format. Generally the funds itemise management fees, ongoing expenses such as custody, but for legacy funds, embedded advice fees are not itemised, but in new client sales these are not permitted. Marketing and distribution charges and performance fees are not consistently itemised. Pan-European regulations require the inclusion of acquired fund expenses when more than 10% is invested in another fund. Funds are required to file a "long-form" report to the regulator (the FSA) and to provide a less-detailed "short-form" report to investors by default. The short-form report omits the complete portfolio holdings and many other items. Funds are required to supply the full long-form report to shareholders on request.

Mutual funds in the U.K. are required to provide full disclosure of all positions, including derivatives, in their long-form annual and semiannual reports. These are filed with the regulator and made available on request to all interested parties, but by default investors receive the short-form report. Around 85% of funds send portfolios monthly to Morningstar.

Funds domiciled in the U.K. sometimes provide the name of the portfolio manager, but tenure is rarely provided. No information on the compensation of individual managers or their investments alongside investors is available, although UCITS V implementation across Europe (introduced in the U.K. in March 2016) requires disclosure of compensation details and structure.

The U.K. does not have a publicly sponsored website with an electronic repository of fund documents.

Fees and Expenses

In the U.K., stated initial sales charges (loads) and breakpoints are negotiable with the sales agent. However, this is only relevant to pre-RDR legacy share classes. Under the rules generated by the RDR, most new investments will flow into classes that are free of sales charges and ongoing trail commissions. An exception is made for restricted advisors who elect to only offer "basic advice," although here strict disclosures are mandated.

Historically, investors sometimes have paid for advice separately through fees instead of through loads and embedded trail commissions. However, this number is expected to be going up significantly because of the banning of most commission and trailer-based compensation for new investments. Legacy assets based upon retrocessions still dominate fund assets, but this is evolving organically as investors shift allocations and change advisors.

Prior to the implementation of RDR, between 50% and 75% of both share classes available for sale and domiciled in the U.K. reported a front load. The implementation of the RDR has resulted in the mass creation of share classes that investors are able to purchase without paying a load or retrocessions, as advice is now largely required to be paid for directly by fund investors to their advisors. Thus, the percentage of share classes that report charging a front load is expected to decrease in the future. However, funds are not required to shift investor assets from share classes with trailers to RDR share classes. While there has been a certain move into unbundled share classes, there has yet to be a wholesale shift. The FCA is evaluating ways to push this further.

Funds are permitted to charge performance fees that are asymmetric insofar as they increase the cost to the investors in the case of outperformance but do not decrease the cost to the investor in the case of underperformance. The terms of performance fees are frequently too complex for a typical investor to be able to accurately estimate total expenses including performance fees.

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

The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled and available-for-sale funds:

Fixed-Income / AFS 1.06%	Equity / AFS 1.60%	Allocation / AFS 1.46%
Fixed-Income / Domiciled 0.84%	Equity / Domiciled 1.28%	Allocation / Domiciled 1.34%

Sales

British investors have independent advisors and fund supermarkets widely available to access funds. The independent advisor channel dominates fund sales in the U.K. Historically, it is estimated that over 80% of funds in the U.K. are sold through a distributor with an open-architecture system.

Mutual funds in the U.K. generally have investment minimums, but these are frequently waived for investors in an automatic investment plan. Investors can set up a savings plan through online supermarkets for as little as GBP 25 a month.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In the U.K., investors must receive the KIID before purchasing shares in the fund. The ban on "off-the-page" is enforced; for example, online fund supermarkets require investors to certify receipt of the KIID. RDR requires advisors to consider all equivalent products when recommending investments to their clients, and they are subject to a "suitability" or "reasonable basis" test that requires evidence of why they recommended a particular product. Additionally, all conflicts of interest must be disclosed, but commission bans have reduced potential conflicts considerably.

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

In the U.K., the RDR has strictly prohibited independent advisors from soliciting or accepting "any commission, remuneration or benefit of any kind" for recommending funds. A subclass of restricted advisors offering "basic advice" can be compensated via commission, fee, or other benefit but must clearly disclose these arrangements to the client prior to providing services. The practice of using sales contests to motivate general sales of funds is prohibited.

We observe that investors in the U.K. can find mutual fund articles in their newspapers on a weekly basis. These articles now sometimes mention mutual fund fees when they are high, and they only sometimes promote long-term investing.

Exchange-traded funds are available, but not yet fully integrated into advisor platforms. This means just a small but growing percentage of advisors use them. Investors will tend to invest in ETFs listed on local exchanges, typically favouring domestic equity, U.S. equity, regional equity, and commodities.

United States

Regulation and Taxation

Overall, regulation of funds aimed at retail investors in the United States has been effective. Although widespread misbehaviour was uncovered in the early 2000s, only a few problematic cases have arisen since then, and monetary costs to fund shareholders, even in the most serious cases, have been small. In short, funds do what they tell investors they will do and don't try to get around the rules. That said, media reports indicate that owing to lack of funding and other reasons, regulators may be short-staffed and unable to provide the depth of reviews and oversight that they would prefer.

The Securities Exchange Commission (SEC) is the primary regulator of investment funds in the United States. The SEC was created by the Securities Exchange Act of 1934 "to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation."

Mutual funds, exchange-traded funds, and closed-end funds in the U.S. are regulated under the Investment Company Act of 1940 (1940 Act). This legislation, last updated in 2012, requires fund companies to register with the SEC. The SEC thus has primary authority in regulating these funds, but when they invest in derivatives tied to commodities, those are regulated by the Commodities Futures Trading Commission. A third federal agency, the Department of Labor, proposed important new rules in 2016 affecting fund sales, a portion of which went into effect in June 2017 while other aspects have been delayed. (Further discussion of the Department of Labor guidelines appears in the Sales section, below.) In addition to these regulators, a self-regulatory body, the Financial Industry Regulatory Authority (FINRA), administers and interprets the SEC's legal framework for sales literature and fund advertising for securities firms doing business publicly in the U.S.

This overlap among multiple regulatory entities has the potential to create confusion and inconsistencies both for fund companies and for investors. Unified regulatory leadership would be preferable to the competing standards currently in place.

Most enforcement actions are public. The regulation and supervision of fund advertisements is generally effective and prevents misleading advertising.

Funds must be audited by an independent party at least once a year. The 1940 Act requires that funds use a custodian to ensure safekeeping of fund assets, but allows the custodian to be an affiliated company. It's also acceptable for the custodian to provide additional services such as acting as the fund's transfer agent and/or dividend disbursing agent.

The SEC permits soft-dollar arrangements—in which a fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favours such as entertainment—as long as the services provided are lawful and appropriate to portfolio-manager performance. While many professionals are bound by the CFA code of ethics, and numerous firms have also adopted those standards as well, there is no regulatory requirement that the soft-dollar arrangements specifically benefit fund shareholders. Soft-dollar arrangements must be disclosed in the prospectus.

U.S. funds are required to have a board of directors, and at least 40% of the board must qualify as independent. In practice, independent directors represent a majority of directors on most boards with independent chairs also common. Boards are charged with approving fund launches, closings, and liquidations. They also negotiate fees, and evaluate performance, securities pricing, and administrative contracts. By and large, boards of directors approve most fund company proposals. But they assert their authority when they think it's in the interest of fund shareholders.

In the U.S., funds have no significant limitations on what they may invest in. They are prohibited by the federal government from investing in securities from certain countries or companies under government sanctions, but most such countries or companies do not have many liquid securities eligible for funds anyway.

The U.S. requires funds domiciled in other countries to register under the 1940 Act in order to sell to American investors. Foreign-domiciled funds are not typically available to U.S. investors, which makes the U.S. different in this regard than most other countries in this survey.

The U.S. offers tax incentives for individuals who invest for retirement through a variety of account types, such as 401(k), 403b, and 457 accounts. Employer-sponsored 401(k) plans allow workers to save toward retirement on a pretax basis, while Roth 401(k) plans accept aftertax contributions with no tax upon withdrawal. Tax laws allow for a wide variety of securities to be held within 401(k) accounts. Investors must keep their money in the plan until reaching 59 1/2 years of age or becoming disabled; otherwise they suffer a monetary penalty. Withdrawals from a 401(k) are subject to taxation as ordinary income.

Individuals also may participate in two types of Individual Retirement Accounts (IRAs). In a traditional IRA, contributions are made after taxes but are tax-deductible, with distributions taxed as normal income. For Roth IRAs, contributions are made after taxes, and normal distributions are not subject to income tax. Both types of IRA have income and contribution limits. IRA distributions can begin at the age of 59 1/2 years or if the individual becomes disabled.

Investments held in retirement accounts are generally subject to the same laws and regulations as those held in taxable accounts. That said, Collective Investment Trusts (CITs), which are becoming common investment options within 401(k) plans, do not have the same disclosure requirements as mutual funds

(for example, portfolio disclosure). But in practice, a similar level of disclosure is made on a voluntary basis.

Every year, U.S. investors must pay taxes on interest income earned within a fund, unless the income is derived from municipal securities that are exempt from federal taxation (and in some cases from state taxation as well). Interest income is taxed at the full earned income marginal tax rate. Taxes on dividends are also paid annually. Most dividends are taxed at a qualified dividend tax rate, which is lower than the earned income rate.

Fund investors in the U.S., unlike those in most other countries in this survey, are assessed capital gains taxes on realised gains within fund portfolios. Funds typically distribute these taxable gains; if they don't distribute a minimum of 95% of gains, they face tax penalties. Short-term capital gains are taxed at the investor's full marginal income tax rate, but long-term capital gains (on assets held for more than one year) are taxed at a significantly lower capital gains rate. Taxes on investment funds are not withheld, so investors are responsible for paying the taxes themselves. In the U.S., a hypothetical investment with a 6.29% annualised pretax return has an aftertax return of 4.71%, which amounts to a reduction of 1.58% annually.

There is no national consumption tax in the U.S., and fund management services are exempt from local consumption taxes, which generally do not tax services.

Disclosure

Disclosure is a strong point in the U.S. fund environment compared with other countries in this survey. Funds in the U.S. are required to publish a simplified prospectus, a full prospectus, shareholder reports, and other filings, including a notification when a portfolio manager leaves or is added. Fund companies commonly distribute simplified prospectuses to new and existing shareholders that focus on just the fund under consideration, but for government filings and postings on websites they often consolidate a large number of simplified prospectuses into a single electronic document. The simplified prospectus, as well as all other fund and corporate filings in the U.S., are required to be written in plain language.

Simplified prospectuses usually include sufficient information for professionals to identify the exact investment strategy used by the portfolio managers. Risks are generally explained clearly within the document, but frequently are too general and too numerous to be useful. This document also presents expense ratios on both a prospective and historic basis, with an illustration of the effects of fees on an investment from between one and 10 years. The simplified and full prospectuses must contain both the name and tenure of the portfolio manager (with special requirements for management teams), but generally do not contain any information on the fund's investment holdings.

All retail investment products—including open-end funds, exchange-traded funds, and closed-end funds—are subject to the same reporting requirements and must update their prospectuses annually.

Funds are required to file quarterly financial statements as well as full semiannual and annual reports. Management's discussion of performance in reports varies widely; some manager discussions are brief and generic, while others go into great detail on individual holdings and the effects of market events on the portfolio.

In the financial statements, the costs that make up the expense ratio are disclosed in total and on a per-share basis. SEC regulations require the statements to itemise any expenses that make up more than 5% of the expense ratio. Shareholder reports list the commissions paid, so investors can estimate trading costs; prospectuses and annual reports also include the portfolio's turnover ratio. For funds of funds, only the prospectus and simplified prospectus include the acquired fund expenses when reporting the prospective expense ratio; by contrast, the financial reports only include expenses directly paid from fund assets.

A positive element is that fees are presented in a uniform format throughout all fund literature and marketing materials, so comparisons can easily be made between different funds from different providers. Expense disclosures include four prior years.

In their financial statements, funds are required to disclose a full portfolio that includes all long and short holdings, on a quarterly basis. In practice, more than half of funds provide Morningstar and investors with full holdings monthly upon request, with a reasonable delay.

The U.S. requires an additional disclosure document called the Statement of Additional Information (SAI), which includes more-detailed information than that which is disclosed in most other countries. The SAI describes the relationships between the fund company and outside service providers; the structure of the fund; investment and borrowing policies; details of manager compensation and performance fee arrangements; and the amount of money (in a broad range) each manager and member of the board of directors has invested in the fund. Funds must also publish Form N-PX, which discloses how the fund has voted proxies of portfolio securities in the prior year.

Fund company filings can be found via an electronic database called EDGAR (Electronic Data Gathering, Analysis and Retrieval) developed by the SEC. EDGAR requires companies to file all documents and data electronically with the SEC in a timely manner. Individual investors can search the EDGAR site and access and download regulatory filings free of charge.

Fees and Expenses

Investors can buy funds in a variety of ways in the U.S. If they buy from a commission-based sales agent, stated loads and breakpoints are not negotiable, but the sales loads have breakpoints based on the amount invested and as a result many investors in load funds pay less than the full sales load. More important, in recent years investors have been migrating to fee-based advisors, paying the advisor for advice directly, and thus are able to buy the funds without paying loads. In addition, it is quite common

for investors to forgo advisors entirely and invest directly in funds without loads, without receiving any advice. So-called “no-load funds” are widely available and constitute a large part of investor assets. This is one area where the U.S. stands out as unique among countries in the survey.

The U.S. is one of the few countries in this survey to require that any performance fees paid to fund advisors include a symmetrical reduction in fees for underperformance, also known as fulcrum fees. In practice, though, few funds in the U.S. assess performance fees. Where such fees do exist, the terms are disclosed in the financial documents, though they can be complex.

A new development is the creation of “clean shares.” The expense ratio for clean shares would not include operational or marketing fees or trailing fees, or any other additional charges besides the management fee. Those costs will be paid separately, so overall costs for the investor may not fall. But investors will have a far better understanding of what those charges are and whether they are at reasonable levels. This process is in its initial stages.

As noted above, individual investors in the U.S. cannot invest in foreign-domiciled funds. The table below represents the median asset-weighted expense ratios across major asset classes for locally domiciled funds:

Fixed-Income / Domiciled	Equity / Domiciled	Allocation / Domiciled
0.45%	0.67%	0.64%

Sales

In the U.S., retail investors favour open-end mutual funds and ETFs, with ETFs gaining greatly in popularity in recent years. Funds dominate the investment choices available in investor retirement plans. American investors have all sales channels widely available, including independent advisors, fund supermarkets, traditional brokerages, and banks and insurance companies, and can also buy directly from the fund. No one sales channel dominates fund sales.

Most 401(k) plans offer investors a selection of individual funds, from which they can build their own portfolios, as well as target-date funds allocated with a view toward a specific retirement date (within a five-year time frame). Some plans also offer a managed account service that selects funds for the investors and reallocates their portfolios as they approach retirement. In general, plans offer a few funds in each category. However, some plans have dozens of investment options, including sector, regional, and alternative funds, as well as annuities and other insured products.

Regulations governing retirement plans now prevent plan providers from offering only their own funds to investors, so that a typical plan menu will consist of both proprietary and nonproprietary funds. Some plans have fully open architecture, although which funds make it on to the menu is driven by business considerations—that is, revenue-sharing arrangements that help pay plan administrative and operational costs—as well as investment quality.

Mutual funds generally have investment minimums, but these are frequently waived for investors in an automatic investment plan.

Technically, fund companies in the U.S. can't sell shares to investors without sending them the prospectus first, but in practice, many online purchases occur prior to an investor receiving a simplified document.

Traditionally, FINRA has required brokers—and others selling funds who are not registered investment advisors (RIAs)—to make recommendations that are suitable for the investor, but the seller was not required to choose the best option for the investor or even consider comparable products. By contrast, RIAs had to adhere to a higher standard, the "fiduciary standard," which requires the seller to act in the investor's best interest—taking into account many factors including cost—rather than choosing an option that might be more beneficial to the advisor.

However, a 2016 Department of Labor proposal, the first part of which went into effect on 9 June, 2017, requires licensed brokers and other advisors to follow the fiduciary standard as well. The proposal specifically applies to tax-sheltered retirement accounts but in effect covers certain other situations as well. Final implementation was due by 1 January, 2018, but in August 2017 that date was pushed to mid-2019. Overall, aspects of the proposal are under debate in both the executive and legislative branches of the federal government, and at this point it is possible that it will be implemented only in part and existing elements altered. That said, in anticipation of the proposal taking effect many firms adopted practices such as eliminating or reducing commission sales, and innovations were introduced such as the aforementioned clean shares as well as T shares, which have identical sales loads and distribution charges across all fund families. Many of these changes are likely to persist even if the Department of Labor requirements are relaxed or rolled back.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are prohibited in the U.S. But the practice of compensating advisory firms for shelf space for particular funds is allowed with moderate regulation or oversight, though disclosure is required. The practice of using sales contests and volume bonuses to motivate general sales of funds is allowed with little regulation or oversight.

Investors in the U.S. can find mutual fund and ETF articles in newspapers, magazines, investment websites, and other outlets, but not as frequently as in certain periods in the past. These articles often mention the importance of fees, promote low-cost options, and promote long-term investing.

Exchange-traded funds are widely available in the U.S., marketed to both retail investors and advisors. They have grown tremendously in popularity in recent years, and asset flows into ETFs now regularly surpass inflows into conventional mutual funds. (While ETFs have gained popularity in many countries, such a high level of usage stands out in this survey.) There are multiple providers of ETFs covering a full

range of asset classes, including domestic equity, global and regional equity, bonds, cash, and commodities. U.S. investors typically buy ETFs listed on U.S. exchanges.