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Global Fund Investor Experience 2011

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Introduction

The goal of this report is encourage a dialogue about best practices from the perspective of the mutual-fund shareholder. (Although some of the questions in this report apply only to smaller, retail investors, other questions apply equally to retail and institutional owners. Therefore this report should be interpreted as applying to all fund shareholders, not just individual investors.) Just as with stocks, some jurisdictions offer relatively friendly investment climates for mutual fund owners and others less so. This report analyzes 22 mutual fund marketplaces, highlighting their strengths and weaknesses. The findings are summarized via a series of scores. These scores roll up into grades at the topic level, and then eventually into a single final grade for each country.

This survey considers the investing experience of publicly available open-end fund investors. Open-end funds are registered investment pools that are not listed on an exchange, that do not carry insurance features, and that generally issue or redeem shares on a daily basis. Open-end funds have a variety of names in the countries surveyed, including: Mutual Funds, Investment Companies, Unit Trusts, and SICAVs. In this survey, all are simply referred to as "mutual funds" or "funds." This survey 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, exchange traded funds, collective investment trusts, hedge funds, private-equity funds, or venture capital funds.

Note that this report examines the treatment of mutual-fund shareholders from multiple perspectives: the practices of industry manufacturers (that is, money managers); the practices of industry distributors; the structure and effectiveness of regulatory bodies; disclosure policies; the tax code; and the role of the media. Therefore, the report should not be construed as grading each country's "fund industry." It aims much more broadly than that, in recognition of the fact that the mutual fund investor experience is shaped by far more than the fund industry alone.

The topics are:

Regulation & Taxation
Disclosure
Fees and Expenses
Sales & Media

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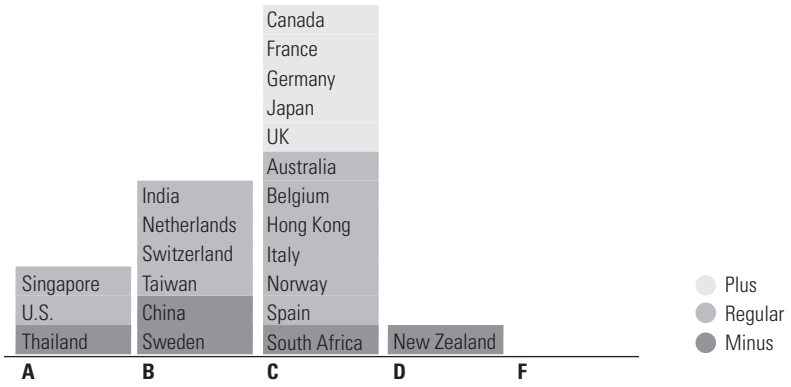
The overall results are displayed below, and the countries are sorted in order by their overall score, with Singapore and the United States at the top and New Zealand at the bottom.



This report focuses on the global study, explaining our evaluation criteria and recommendations and comparing results across countries. Please refer to individual countries' reports for details in any particular country. In the following sections and the overall grade is deconstructed into component grade by topic. The countries studied are:

Australia
Belgium
Canada
China
France
Germany
Hong Kong
India
Italy
Japan
Netherlands
New Zealand
Norway
Singapore
South Africa
Spain
Switzerland
Sweden
Taiwan
Thailand
United Kingdom
United States

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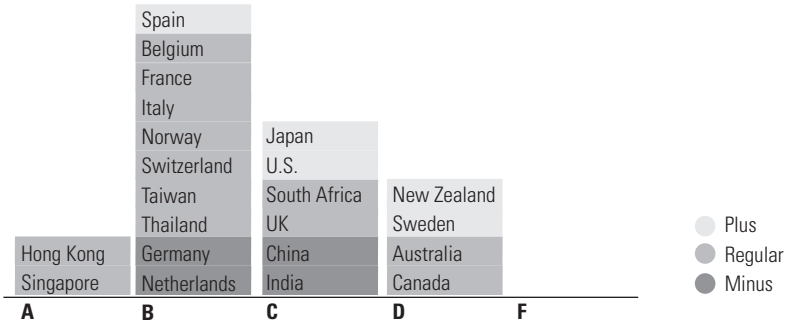
Regulation and Taxation



This section examines whether investors are well protected by the existence of laws and regulators. It considers taxation on mutual fund dividends and capital gains for individual investors and evaluate governments' taxation incentives for retirement savings and long-term investing.

All countries in the study have laws and regulatory bodies governing the investment industry. In 10 countries we see the financial authorities regularly updating regulations, but in 12 countries the regulations are only somewhat up-to-date and can be delayed or only partially address known problems.

Regulators in some countries are well staffed to fulfill their mission while others are not at the adequate level of staffing. In four countries, New Zealand, South Africa, Sweden, and the United States the regulatory organization struggles to keep up with the marketplace only gross improprieties drawing attention. In Morningstar's opinion, those countries should increase their regulatory expenditures. We observe that New Zealand has begun reforming fund regulation and enforcement, and while the current grade reflects historical enforcement we are encouraged by the changes proposed by New Zealand's government.

All countries in the study require that a fund's annual report be audited by an independent organization, an important measure for the prevention of fraud. Another important requirement is to ensure that the fund-management firm does not perform the function of custodian of fund assets, thereby minimizing conflict of interest and fraud. However, although all countries require fund assets to be kept with a custodian that is separate from fund management, not all such entities are independent. Custodians in most countries are affiliates of the fund-management entity. It is very difficult for an investor to determine this fact by reading the prospectus as affiliates often have a completely different name that the sponsoring fund companies. Morningstar recommends that fund assets custody be with a completely independent organization. When a complete separation of custody and fund management is not possible, Morningstar suggests that regulators require fund companies to explicitly disclose their affiliation with custodians.

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A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for research, hardware, software, or even non-research-related favors such as entertainment. These are called soft-dollars, as opposed to hard dollars such as paying cash for the services, because the money that would have paid for these items does not appear on the accounting statements and is instead embedded in trading costs. Ethical firms should limit such arrangements to pay strictly for research-related items. In the European Economic Area the Markets in Financial Instruments Directive (MiFID) requires that all alternative brokerage arrangements be used for the benefit of investors, be disclosed, and that managers seek best execution of trades. This substantially requires that all soft-dollars be used for purposes that benefit the fund. While purchasing research directly, rather than bartering with soft-dollars is ideal. These restrictions limiting use of soft-dollars to items that benefit investors is an improvement over the past. Purchasing research directly, rather than bartering with soft-dollars, is ideal. All countries except Taiwan find that soft-dollars are a continuing practice. China, India and Japan do not require soft-dollar arrangement disclosure, and regulators, the media, and investors should pressure on fund companies to provide information on the use of soft-dollars.

Investors in most countries in this survey can purchase certain foreign-domiciled funds in addition to funds that are domiciled at home. Many funds registered under the Undertakings in Collective Investments in Transferable Securities Directives (UCITS) are widely available across Europe. In 2011, the task of distributing and merging funds across borders in Europe should become more streamlined with the implementation of UCITS IV. In theory, choice in funds should increase competition and reduce fund costs. But as discussed later in this report, choice as not always associated with lower costs, as some of the cheapest fund markets are fully closed to foreign domiciled funds.

Fund companies in some countries have boards of directors to represent the rights of shareholders in fund operating decisions. The duties and responsibilities of fund boards vary greatly. In countries without the requirement of fund boards these duties often fall to a trustee or custodian. Five countries in this survey require funds to have a board of directors with a minimum level of independence representing shareholders. Morningstar encourages more countries to protect fund shareholders with an independent board.

Political considerations can restrict an investor's or fund's ability to invest in securities issued outside the home country. Sixteen countries in this survey have no general restrictions from investing in foreign securities. Four countries, China, India, South Africa, and Thailand, limit overseas investments and have capital limits or other requirements before funds are able to invest overseas. These countries limit foreign investment in order to spur local growth. Two additional countries have investment restrictions for more overtly political reasons. Taiwan restricts investments in the People's Republic of China's A-shares to only 10% of fund assets and the United States restricts investments in Cuba and Iran.

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Governments in most countries provide specific tax incentives for retirement savings. China is the only country in the survey that does not have tax incentives for retirement savings. While nearly all countries in the survey provide incentives for retirement savings, the tax benefits and investments eligible for benefits vary across countries. In half the countries surveyed, fund choices eligible for retirement savings are limited or do not follow the same regulations. In four countries identical fund choices are available in retirement accounts. Those countries are: Japan, the Netherlands, Norway, and the United States. In Australia, Canada, New Zealand, Switzerland and Thailand alternate fund share classes offer tax preferences, and these funds follow standard fund regulations.

In seven countries, Belgium, Hong Kong, India, Singapore, South Africa, Sweden, and the United Kingdom the choices are similar but funds available for tax-preferred investments follow different regulations. Finally, in five countries the fund choices available for tax-deferred investments are limited. These countries are: France, Germany, Italy, Spain, and Taiwan. Morningstar encourages countries to allow the sale of a full spectrum of investment choices with retirement incentives, and Morningstar supports uniformity in regulation and disclosure between retirement and taxable investment choices.

Morningstar evaluates whether the government encourages long-term fund investing through its taxation policy by opting not to tax capital gains, or by as a minimum levying a lower tax rate on long-term capital gains than on short-term gains. Australia, Belgium, France, India, Norway, South Africa and the United States differentiate between short-term and long-term gains. Norway and India's capital-gains taxation may have the strongest incentive for long-term investment. Instead of a lower tax rate for assets held beyond a year, investors in these countries can index the cost of their investments at a government risk-free rate. Investors only pay taxes on gains above the indexed cost.

To accurately compare the many varying tax systems in these 22 countries, we compared the effective taxes on a standard investment scenario. The standardized fund portfolio is 40% fixed income and 60% equity with a beginning value of $100,000. The scenario assumed a 5 year holding period. Additionally, the tax rates assumed are based upon a married couple earning $100,000 as a couple. The following table presents the estimated taxes incurred.

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Country	Effective Taxes on Fund Investment	Country	Effective Taxes on Fund Investment
Thailand	(6%)	Italy	13%
Hong Kong	0%	Japan	15%
Singapore	0%	New Zealand	16%
China	2%	India	17%
Taiwan	7%	Netherlands	20%
France	8%	United States	20%
Spain	9%	Norway	22%
Belgium	9%	United Kingdom	22%
South Africa	10%	Australia	24%
Germany	12%	Sweden	25%
Switzerland	12%	Canada	26%

The effective tax analysis reveals that Thailand's savings incentives, a tax deduction for savings in a long-term equity fund, actually reduces tax liability to 6% more than the return on the investment fund. Singapore and Hong Kong have virtually no taxes on fund investments, although the investments that qualify are sometimes limited to local funds. It is notable that countries that require investors to pay taxes on passed-through capital gains experience tax burdens that are closest to the stated rates, often higher than other tax regimes. The countries with taxes on annual gains include Australia, Canada, Italy and the United States. Two of these countries are amoung the four with the highest effective taxes: Canada, Sweden, Australia, and Norway.

Many countries in the survey also have a consumption tax regime in place, also known as Value Added Tax (VAT) or Goods and Services Tax (GST). Investors in 15 countries survey face a full or partial VAT on investment management services. Investors in China, Hong Kong, Italy, Norway, Spain, the United Kingdom, and the United States do not have these taxes, which increase expense ratios.

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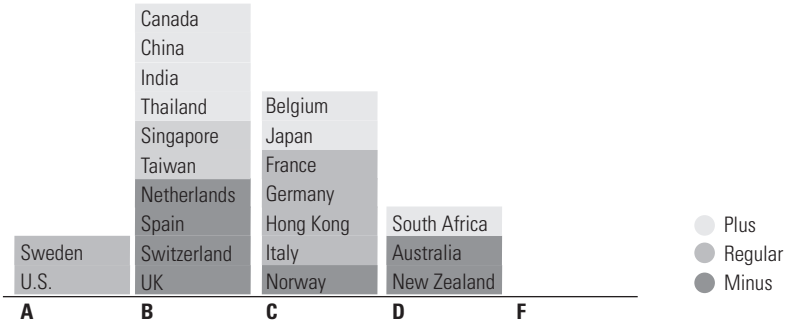
Disclosure



This section examines whether investors are given sufficient information in the prospectus, shareholder reports, and other sources of fund data. Information in the prospectus enables an investor to make an educated investment decision. Information in shareholder reports conveys the performance, composition, and risk exposure of the portfolio.

The best disclosure contains specific information on the fund's risk, investment style, operations, performance, cost, and holdings; preferably in documents produced for a single fund rather than multiple funds. Investors are best served when costs and other operating information is presented in the same location and format by all fund providers, such that investors can easily compare funds. It is a poor practice for funds to provide a laundry list of risk disclosures that may or may not be applicable to the fund investment.

A prospectus or an offer document is a legal document that provides investors with material information about the fund—facts that investors need in order to make informed investment decisions, such as investment objective, risks, performance, fees and expenses, and management. Investors' acknowledgment of the receipt of prospectuses prior to investing is required in most countries included in this study; however, investors rarely read them. With a desire to address this issue, regulators in many countries require that fund companies publish a simplified prospectus in addition to a full version. In most countries, it is either a required or common practice to publish a simplified prospectus. In some countries the simplified prospectus, as its name intended, is indeed simpler to read. In others it is not.

For this year's survey, Morningstar's global analysts provided examples of typical fund literature for funds domiciled in each country. This study's authors then compared the information and format using translated documents to evaluate the effectiveness of the simplified prospectus. The prospectuses were reviewed for clarity of language, length, presentation of costs, information on trading costs, holdings information, manager information, performance data, and general presentation. Out of the 22 countries surveyed, 12 countries require annual simplified prospectuses that met the goals, six countries have simplified documents that do not go far enough to explain funds to investors and four countries have other literature providing minimum investor information prior to sale. The following table summarizes the simplified prospectus disclosure.

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	Document Name	# Funds	# of Pages	Clear Language	Strategy Description
Australia	Product Disclosure Statement	50	148	Partial	Partial
Belgium	Simplified Prospectus	1	11	Yes	Yes
Canada	Simplified Prospectus	50	164	Partial	Partial
China	Simplified Prospectus	1	35	No	Yes
France	Simplified Prospectus	1	9	Yes	Yes
Germany	Simplified Prospectus	1	6	Yes	Yes
Hong Kong	Fact Sheet	**1**	1	Yes	Partial
India	Scheme information document	16	24	Yes	Yes
Italy	Simplified Prospectus	1	4	Yes	Partial
Japan	Prospectus part 1	1	93	No	Partial
Netherlands	Simplified Prospectus	1	4	Yes	Yes
New Zealand	Investment Statement	3	24	Yes	Partial
Norway	Simplified Prospectus	1	2	Yes	Partial
Singapore	Fact Sheet	1	2	Yes	Partial
South Africa	Application	**12**	9	Yes	No
Spain	Simplified Prospectus	1	2	Yes	Yes
Sweden	Simplified Prospectus	1	2	Yes	Yes
Switzerland	Simplified Prospectus	1	6	Yes	Yes
Taiwan	Simplified Prospectus	1	8	No	Partial
Thailand	Simplified Prospectus	1	12	Yes	Yes
United Kingdom	Key Information Document	1	8	Yes	Yes
United States	Summary Prospectus	1	8	Yes	Yes

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Risk Description	TER	Impact of Fees	Trading Costs	Returns	Portfolio Manager	Holdings	Meets Goals
Partial	Yes	Yes	No	No	No	No	**No**
Yes	Yes	No	Partial	Yes	No	No	**Yes**
Partial	Yes	Yes	No	No	No	No	**No**
Yes	Partial	No	Yes	Yes	Both	Yes	**No**
Yes	Yes	No	Yes	Yes	No	No	**Yes**
Yes	Yes	No	No	Yes	No	No	**Yes**
Partial	Yes	No	No	Yes	No	Partial	**Partial**
Partial	Yes	No	No	Yes	Name	No	**Yes**
No	Yes	No	No	Yes	No	No	**No**
Partial	Partial	No	Yes	Yes	No	Yes	**No**
Partial	Yes	No	Partial	Yes	Both	Partial	**Yes**
Partial	Yes	No	No	No	No	No	**Yes**
No	Yes	No	No	Yes	No	Partial	**Partial**
Partial	Yes	No	No	Yes	No	Partial	**Partial**
No	Yes	No	No	Yes	No	No	**No**
Yes	Yes	No	No	No	No	No	**Yes**
Yes	Yes	No	Yes	Yes	No	No	**Yes**
Yes	Yes	No	Partial	Yes	No	No	**Yes**
No	Yes	No	No	Yes	No	Partial	**No**
Yes	Yes	No	No	Yes	No	Yes	**Yes**
Yes	Yes	Yes	Partial	Yes	No	No	**Yes**
Yes	Yes	Yes	Partial	Yes	Both	No	**Yes**

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Fund companies provide shareholder reports at least twice a year in most countries, but in the Australia and Taiwan reports are available only once a year. Most countries require a section where fund managers discuss the fund's recent performance. Generally, the manager discussion is generic and fails to connect fund performance with portfolio actions. Worse yet, in Australia, Germany, Hong Kong, and Switzerland, few funds provide any discussion at all. These results can and should be improved, as the shareholder report is the primary conduit for the fund to communicate to its investors.

Fees and expenses erode performance. Investors should have the necessary information to understand their funds' costs, and to establish whether those funds' costs are reasonable. Across the board in our study, investors can find comprehensive fees and expenses in the prospectus; but in most countries these expenses are presented in aggregate, and investors cannot discern what portion of fees pays for each fund expense.

While investors may have difficulty itemizing fund costs, there is general agreement on what expenses should be included in the Total Expense Ratio (TER). All countries in this survey that provide a TER follow the standards outlined by the International Organization of Securities Commissions. TERs exclude entry or exit commissions, and transaction costs associated with purchases and sale of portfolio assets. TERs include management, distribution, and advice fees when they are deducted from fund assets, and other operating expenses such as custody, audit, and accounting fees.

Most countries require disclosure of fund expenses in ratio format within the prospectus, so an investor can estimate the impact of expenses on fund performance. But five countries do not show expenses in percentage terms. Japan is unique among countries in the survey with expenses presented to investors on a per-share amount rather than in ratio format. China, New Zealand, and Norway only present actual expenses through funds' financial statements, and funds in Taiwan present management fees and administration fees but do not calculate a TER for investors. This requires investors calculate the ratio themselves. Morningstar encourages these countries to improve their expense reporting so investors can easily understand the cost of a fund investment.

Prospectuses in some countries, such as Australia, Canada, Italy, Sweden, the UK, and the United States, go as far as requiring a numerical illustration of the total expenses an investor could expect to pay on an investment. Examples illustrate the total dollar amounts that an investor could expect to pay on a $10,000 investment (or other standard amount) if the investment received a 5% annual return (or other standard return), and the investor remained invested in the fund for various time periods. These calculations include entry and exit fees as well as the impact of ongoing expenses included in the TER. Example are also frequently provided in New Zealand, Singapore, and Thailand. Such figures make the fee easier for investors to understand and are strongly encouraged.

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Another issue is whether uniform presentation of fees exists such that each prospectus may be easily compared with another. For example, in Hong Kong, every prospectus discloses the fee in a different part of the document, so investors have to read the whole document to find the information, while in Canada it is very easy to compare fees and expenses from one prospectus to another. Morningstar recommends that regulators or the fund industry implement uniform presentation standards because the benefit of transparency via disclosure is greatly reduced when information is difficult to access. The countries that currently lack uniform presentation standards are China, Germany, Hong Kong, India, New Zealand, Norway, South Africa, and the UK.

The history of expense ratios is not disclosed to investors in most countries. Investors in Canada, India, Italy, the Netherlands, Singapore, Spain, Taiwan, and the United States have historic information alongside current data, although in Taiwan this is available on a government website and not in fund literature. The expense ratios for past years ought to be disclosed together with the current number so that investors can easily determine whether these figures have increased. The disclosure of historical expense ratios should be a requirement. Similarly, for transparent disclosure, costs associated with trading securities in the fund should be disclosed to investors. In some countries proxies for the cost of trading securities, such as turnover ratios are required, in other countries total brokerage commissions paid are available, and a third group has no required disclosure.

Transparency in portfolio holdings allows investors to understand what the fund invests in and where risks may lie. The vast majority of the countries in our study require full and complete disclosure of portfolio holdings. Most countries require funds publish investment holdings either quarterly or semi-annually, but we find a majority of funds in India and Norway provide full portfolios monthly. Only Australia and New Zealand do not require portfolio holdings information. South African and French funds are only required to distribute holdings to shareholders.

One area that can stand improvement is the lack of disclosure on the names and tenures of the portfolio managers. This opaqueness benefits the fund companies and not the investors. Turnover in the ranks of portfolio managers may signal stability issues at the organization. The departure of a decision-maker also brings into doubt the relevance of the performance track record. Many fund companies reason that there are no "star" managers and stress the importance of the process over people. This is a fair viewpoint, but it is not an adequate defense for withholding information. Unfortunately, most countries do not disclose the names and tenures of the portfolio managers. Exceptions are China, Taiwan, and the United States, where investors can typically find both pieces of information, and Canada, India, Sweden, and Thailand where names are typically available but not tenures.

This year this report inquired as to whether funds typically disclose the managers' investment in the fund and the compensation of managers. The structure of the managers' compensation and the manager's willingness to invest alongside investors affects how much managements' interests are aligned with those of shareholders. Only in the United States are these two items required disclosure. In Singapore most funds disclose this

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information when asked. China and South Africa require disclosure of the management company's investment in the fund, and the Netherlands requires that boards disclose their investment in funds they supervise. In the remaining 17 countries, little or no information about either the management company or the managers' investment alongside shareholders is typically provided. In 20 countries, analysts occasionally will get information on the structure of manager compensation, but it is frequently high-level information that is light on specific incentives.

The availability of information is a factor in the investment experience. Investors sometimes have to search far and wide for this information, but in many countries centralized websites provide investors easy access to fund literature. In about one-third of the countries in this survey investors can access a comprehensive and current website containing all required fund disclosures, but another third of the countries' websites could be greatly improved. In some countries these websites are government sponsored, but in others local funds industry associations provide this services. Ideal websites contain a number of years history of all required fund documents for all registered funds. Eight countries do not yet have centralized websites with fund information except through commercial providers.

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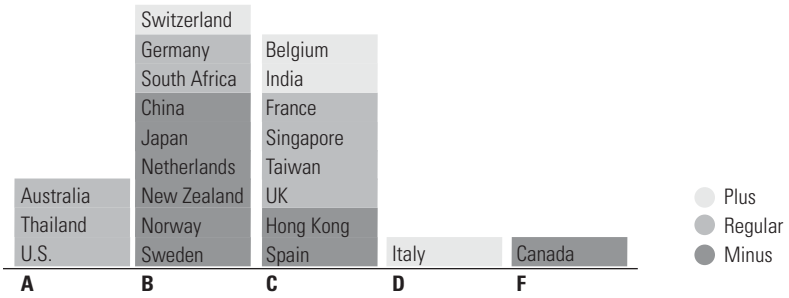
Fees and Expenses



This section compares the total expenses of funds available to investors, as well as other components of shareholder costs, including sales charges.

In most of the countries in this survey the Total Expense Ratio (TER) for funds is readily available. These questions compared the asset-weighted median expenses of three broad classes of funds: Equity Funds, Fixed-income Funds, and Money Market Funds. The analysis only includes retail funds with investment minimums between one share and US$100,000. In most countries investors have the ability to purchase funds domiciled offshore. In order to gain perspectives on the differences between local and transnational funds, this survey has analyzed the median asset-weighted TERs of both funds domiciled and available-for-sale in each jurisdiction.

In general, the asset-weighted expense ratios of available-for-sale funds are moderately higher than those available in domestic funds. This is counterintuitive as one would expect the introduction of competition to push fees lower. There are a number of possible reasons, most prominently being the regulatory costs associated with operating in multiple markets. In the European Union, the UCITS IV directive will be implemented beginning next year. It contains provisions to lower some of the regulatory burdens of operating in multiple markets. It will be interesting to see if these changes result in lower fees for investors.

There is wide dispersion of TERs among fixed-income funds. In eight countries the asset-weighted median expense ratio for funds available for sale is above 1.14%. These countries are: Canada, France, Hong Kong, Norway, Singapore, Sweden, Taiwan, and the United Kingdom. In Belgium, Italy, Japan, the Netherlands, and Spain, the asset-weighted median of available for sale fixed-income funds is between 1.00% and 1.14%. Four countries, China, Germany, South Africa, and Sweden report asset-weighted medians between 0.85% and 0.99%. Investors in Australia, India, New Zealand, and the United States pay TERs on fixed-income funds between 0.60% and 0.85%. Finally, Thai investors pay less than 0.60% for fixed-income funds. It is notable that the five least-expensive markets for fixed-income funds are substantially closed and have few transnational funds.

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Fees for domestic fixed-income funds tend to be lower than the sample including transnational funds. For locally domiciled funds, five countries have an asset-weighted median expense ratio for fixed-income funds of less than 0.60% including: Belgium, Norway, Switzerland, Taiwan, and Thailand. Typical locally domiciled fixed-income funds cost between 0.60 and 0.85% in: Australia, France, Germany, India, the Netherlands, New Zealand, Singapore, Sweden, and the United States. TERs of domiciled fixed-income funds fall between 0.85 and 0.99% in China, Italy, Japan, and South Africa. In Spain and the UK the cost of local fixed-income funds is between 1.00% and 1.14%. Only in Canada and Hong Kong are locally domiciled fixed-income funds more expensive than 1.14%.

In 15 countries the asset-weighted median expense ratio for available-for-sale equity funds is between 1.75% and 1.99%, these countries are: Belgium, France, Germany, Hong Kong, Italy, Japan, the Netherlands, Norway, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, and the United Kingdom. Only Canadian and Indian investors pay more than 2% for available-for-sale equity funds. Less expensive cohorts include: China and Thailand with asset-weighted medians between 1.25% and 1.74%; Australia and New Zealand are between 1.00% and 1.24%; and only in the United States are asset-weighted medians for available for sale equity funds below 1.00%.

As with fixed-income funds, locally domiciled equity funds are generally cheaper than transnational funds. But the United States remains the only country with expense ratios below 1.00%. Equity funds domiciled in the Netherlands and Switzerland join those from Australia and New Zealand with expenses between 1.00% and 1.24%. The countries with domiciled equity fund TERs between 1.25% and 1.75% include Belgium, China, Germany, Japan, Norway, South Africa, Sweden, Thailand, and the United Kingdom. Domiciled equity funds in France, Hong Kong, Singapore, and Taiwan have typical expense ratios between 1.75% and 2.00%. Canada, India, Italy, and Spain are the only countries with locally domiciled equity fund expense ratios above 2.00%.

Cash or money market funds show less disparity between the domestic and available-for-sale funds. Exactly half of the countries queried show typical available-for-sale money market TERs below 0.60% and half above. Investors in Australia, France, Japan, and Spain have money market funds with TERs between 0.20% and 0.39% available for sale. The typical TER of available-for-sale money market funds is between 0.40% and 0.59% in Germany, Hong Kong, New Zealand, South Africa, Thailand, and the United States. In Belgium, China, India, the Netherlands, Norway, Singapore, Sweden, Switzerland, Taiwan, and the United Kingdom the typical asset-weighted median of available-for-sale money market funds is between 0.60% and 0.79%. In Canada and Italy available for sale money market funds have typical expense ratios of 0.80% or higher.

Investors in domiciled money market funds in France and Japan face typical expenses of below 0.20%. In Australia, Belgium, and Switzerland domestic cash funds cost investors between 0.20% and 0.39%. Eleven countries demonstrate asset-weighted median expense ratios for locally domiciled funds between 0.40% and 0.59% and these countries are: Germany, Hong Kong, New Zealand, Norway, Singapore, South Africa, Sweden,

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Taiwan, Thailand, the UK, and the United States. Investors in China, India, and the Netherlands pay more than 0.60% and less than 0.80%. Only in Canada, Italy, and Spain do cash accounts have typical expense ratios of 0.80% or higher.

Canada is the only country in the survey with TERs in the highest grouping for each of the three broad categories. Investors in the United States pay the lowest TERs for equity funds and below average costs for fixed-income and money market funds. Market size and openness to foreign funds appears to have less of an impact on the fees paid by mutual fund investors than does the openness of fund distribution.

The other major factor in shareholder costs is sales charges, or loads. This document uses the term "load" and "sales charge" interchangeably. Additionally, the term no-load throughout this document indicates that a fund is free of explicit sales charges paid by investors. However, the term no-load does not imply that there is no remuneration of investment advisors from the fund.

Loads come in a variety of types, the most common being, front loads or initial sales charges. In most countries investors also have the choice of deferred loads paid upon fund exit, no-load funds, and other distribution structures. Funds in India are not permitted to charge front loads. In six countries, Belgium, France, Germany, Singapore, Switzerland, and Taiwan, more than 75% of locally domiciled funds report front loads. In 14 countries between 50% and 75% of available-for-sale funds charge front loads. While front loads are common, in most countries no-load funds are somewhat available. In addition, in 13 countries front loads are negotiable with the sales agent. In five countries it is common practice for loads to be on a schedule based upon the level of investment. Finally, in Belgium, China, and France large investors can negotiate load charges but is uncommon for an individual investor to have this power.

In 15 countries it is rare for an investor to pay for advice outside of the charges imposed by the funds through their TERs and (possibly) sales charges, but in a handful of countries this occurs more frequently. In Australia, India, New Zealand, the United Kingdom, and the United States advice is sometimes paid for outside of loads and fund expenses. Paying for advice outside of fund sales charges and TER is not a known practice in China or Thailand.

Fund management expenses in many countries include performance components, to align managements' interest with investors. Most countries in this survey allow these arrangements with few restrictions. It is common for performance fees to be asymmetrical, whereby managers receive compensation for performance over a benchmark, but face no penalty for underperformance. In Norway and the United States all performance fees must be symmetrical, whereby funds wishing to earn fees for outperformance face an equal reduction for underperformance, also known as fulcrum fees. Morningstar recommends additional countries require fulcrum fees so investors' interests are aligned with those of their funds' managers.

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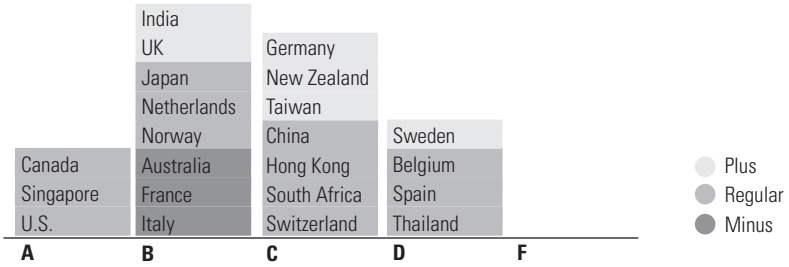
Sales and Media



Sales and Media are the direct contacts to which investors are exposed. In Sales practices we examine whether the incentives of fund companies and distribution channels are aligned with those of investors. Media coverage grades the content and educational value of the coverage of funds by that country's media.

In directed brokerage, fund managers direct portfolio transactions to particular brokerage firms in exchange for promoting their funds, a practice that clearly is not in shareholders' best interests. Directed brokerage is not an accepted practice in all countries except China and South Africa, and Morningstar encourages the regulators and industry participants in these countries to stop this practice because it compromises best-trade execution, which is not performed in the best interest of the investors.

All countries prohibit "off-the-page" advertising. "Off-the-page" advertising allows investors to send money to a fund company without receiving the full or simplified prospectus first. In half the countries in this survey, these restrictions are not well enforced. Morningstar encourages regulators to ensure investors get sufficient information prior to making an investment decision.

Disappointingly in most countries it is a common practice to use sales contests to motivate sales of funds and to compensate advisors, either monetarily or through awards, for selling particular funds. This implies that the fund industry's sales force can lack independence and may promote funds for self-interest rather than the best interest of the investor. In the European Union, UCITS IV will require the disclosure of most of these arrangements.

There is typically an article on mutual funds in the leading national financial newspaper on a weekly or daily basis in all of the countries except South Africa, Hong Kong, and Sweden. The media in Hong Kong do not independently cover articles on mutual fund investing as these articles tend to be advertisements or are accompanied by advertisements. This lack of content and independence is disappointing and unacceptable.

The media in most countries rarely indicate when a fund's cost is high. Only the media in Canada and Italy regularly point out to readers when a fund's cost is high.

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In general, the media do not sufficiently educate investors on the benefits of long-term investing, and of evaluating manager records on long-term history rather than on short-term performance. The media in South Africa and the United States are an exception, almost always promoting the benefit of long-term investing. In another 15 countries the media promote long-term investing some of the time.

In most countries open-end mutual funds are not the only funds available. In many countries, closed-end funds, insurance-linked products, or private pension accounts are frequently offered. In nine countries, insurance-linked funds are still preferred by investors for various reasons.

Mutual funds in 16 countries in this year's survey typically require investment minimums, but in 12 countries, half of the survey, investment minimums are waived or significantly reduced for investors enrolling in an automatic investment plan. Median investment minimums for domestic funds are generally lower than medians for all funds available for sale. The increased costs associated with operating internationally may justify the higher investment minimums of funds operating in multiple jurisdictions. In India, Japan, Taiwan, and Thailand, strict minimums are common, but typical median minimums for locally domiciled funds are below US$500. In many European countries, locally domiciled funds have by tradition had minimum investments of a single share. Within Europe only Italy, Norway, and the United Kingdom have typical minimums above US$500. Our calculations indicate that only six countries have median investment minimums of US$1000 or above for domiciled funds. These countries are: Australia, Hong Kong, New Zealand, Norway, the United Kingdom, and the United States.

Fund distribution is considered to have open-architecture when investment options come from multiple fund families. There are two types of open-architecture systems. Guided architecture is a distribution platform with multiple fund sponsors generally including the distributor's products as well as recommended funds. In contrast fully open-architecture is a platform with numerous fund sponsors, typically without endorsement from a distributor. Morningstar regards both guided architecture and fully open-architecture as open when evaluating fund distribution. Eight countries have very open-architecture, where it is estimated that more than 80% of funds are sold through platforms offering multiple providers, these are: Australia, China, India, Japan, Singapore, Taiwan, the United Kingdom, and the United States. In only four countries, Belgium, Norway, Spain, and Thailand, we estimate that less than 20% of funds sold through an open-architecture platform.

Finally, this report considered the availability of five sales channels: fund supermarkets and online brokerage; traditional brokerage; banks and insurance companies; independent financial advisors; and direct from the fund. In 10 countries, all five sales channels are widely available. Seven countries have four sales channels widely available. The countries with the least variety of fund distribution all report wide availability of online fund platforms.

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Country Summaries

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Australia

Grade C

Australia's overall grade is C. Australian investors enjoy low costs, which are a major benefit, but are otherwise not particularly well served. The country's weak disclosure practices and high tax rates are two major drawbacks.

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

Australia fares very well for Fees and Expenses. Investors in equity and money market funds in Australia pay among the lowest fees worldwide. Australia's bond-fund expense ratios are less attractive, being about average globally. Most Australian funds come with no upfront sales charge, and those that do are frequently discounted by either the fund or a fund platform.

Australia's Sales and Media practices are average. Sales contests and favored compensation for the distribution of particular funds imply that the fund industry may sometimes promote funds for self-interest rather than the best interest of the investor. However, disclosure of remuneration does limit abuse in this area. On the bright side, Australia offers a full range of distribution options and an open-architecture system. The media in Australia is fairly typical both in terms of frequency of coverage and in content.

With Regulation and Taxation, Australian investors suffer some of the highest investment taxes of any country in the survey, with the maximum marginal tax rate on income, dividends, and capital gains at a stiff 45%. Additionally, few countries in this survey echo Australia in taxing fund investors for capital gains earned within the fund annually, as opposed to deferring such taxes. Australia 's regulation is better than its tax policy, but is not outstanding.

Australia has major problems with Dislcosure. Critically, investors do not have access to the very basic item of portfolio holdings. Australia and New Zealand are the only countries in our study that do not require portfolio holdings disclosure. With global best practices being mandatory quarterly disclosure, Australia is very far from the mark. Also, Australia lacks a true simplified prospectus and does not require that management discuss its fund's performance.

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Belgium

Grade C

Belgium's overall grade is C. Belgium's bright spots include an effective regulator and an excellent version of the simplified prospectus; less happily, Belgium's sales culture is not particularly open nor investor focused.

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

For Regulation and Taxation, Belgium rates fairly well. Belgian investors are subject to high short-term capital gains taxes on funds, but they are exempt from long-term capital gains taxes. The Belgian regulatory body, CBFA, is effective at regulating the fund industry and its advertisements. However, most enforcement actions are not disclosed, which hurts investors who wish to know the track records of companies that are attempting to do business with them.

With Disclosure, Belgium can claim an unusually clear and comprehensive simplified prospectus; also, fund expenses are itemized, illustrated, and presented in a uniform format. Portfolio holdings are disclosed at the global standard (although not the best practice) of twice annually. Less helpfully, funds are not required to disclose either the name or the tenure of their portfolio managers.

Belgium's Fees and Expenses are attractive for its domiciled funds. Annual expenses for equity and money-market funds domiciled in the home country are moderately below the global norms, and local fixed-income funds are cheap indeed. However, most funds available to investors in Belgium are registered elsewhere, and are not particularly affordable. For example, the median asset-weighted annual expense ratio for equity funds available for sale in Belgium is a steep 1.93%.

Belgium does not score well for Sales and Media practices. Sales contests and favored compensation of particular funds suggest that the fund industry will promote the sale of funds for reasons other than the best fit for the investor. The media in Belgium rarely point out the merit of long-term investing and only sometimes mention the negative impact of high fund costs. Finally, investors in Belgium would benefit from a wider range of distribution options and more platforms that feature funds from a wide range of fund families, as opposed to offering only limited choices.

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Canada

Grade C+

At a deceptively normal-looking C+, Canada's overall grade hides major strengths and weaknesses. Positively for fund investors, sales and media practices are excellent and disclosure is very good. Unfortunately, these benefits are counterbalanced by steep taxes and the highest fund costs found in this survey.

Area	Grade
Regulation & Taxation	D
Disclosure	B+
Fees and Expenses	F
Sales and Media	A

Canadian investors enjoy excellent Sales and Media practices. Sales contests and favored compensation of particular funds is strictly regulated to maintain the sale force's independence. The media in Canada will sometimes emphasize long-term investing, and will nearly always mention high fund costs. Finally, minimum initial investments are low.

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

The story is less happy with Regulation and Taxation. Canada has steep investment taxes that are applied to fund management fees. Although Canada offers fund investors a tax break for capital gains and dividend income, their overall tax bill remains high. Additionally, taxes are levied on the service of fund management. This increases fund expenses. With regulation, Canada restricts competition by not permitting foreign-domiciled funds to register for sale in Canada. Nor does it offer fund investors the protection of a board of directors.

Canada fails for Fees and Expenses. Among the 22 countries in this survey, Canada has the highest annual expense ratios for equity funds, the third highest for bond funds, and tied for the highest for money-market funds. These costs cannot be explained by pointing to unique features of the Canadian fund market. Canada's method for computing fund expenses is the global standard, and its distribution model of financial advisors selling and servicing no-load funds is widely shared (although not by its southern neighbor, the United States).

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China

Grade B-

China's grade is B-, which is average within the survey. China's most attractive feature is its low tax rate, as fund investors do not pay taxes on capital gains or interest on most government debt. The main drawback for Chinese fund investors is restrictiveness, as China does not permit foreign-domiciled funds to set up shop, and limits the amount of assets that Chinese funds can invest overseas.

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

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

China fares pretty well for Fees and Expenses. Chinese equity funds have the lowest expense ratios of any non-English-speaking country. The same holds true for its fixed-income funds. Its money market funds are about average in cost. Most Chinese funds do have front-end sales charges, which are often negotiated downwards by large investors, although less commonly by small buyers.

Sales and Media practices are mixed. On the one hand, the investor-unfriendly behavior of sales contests and favored compensation for the sale of particular funds are permitted with little oversight. So too is the practice of directed brokerage, by which a fund steers its trades toward a brokerage firm that helps to sell its shares. On the other hand, minimum required investments of Chinese funds are very low. Also, fund distribution in China is dominated by open-architecture distribution, so that investors generally have the opportunity to choose between many different fund companies.

Regulation and Taxation sees China at its best—and at its worst. Chinese investors face no taxes on gains and modest taxes on income earned within funds, with total effective taxes estimated below 10%. However, China has no provision for foreign-domiciled funds to apply for sale within China, thereby stifling competition. Additionally Chinese investment funds need permission to invest assets overseas, and limits generally accompany this permission.

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France

Grade C+

France occupies the middle territory, scoring Bs and Cs in all areas, for an overall grade of C+. Unlike in many other countries, the media in France actively promotes the best practices of investing for the long term in a low-cost fund. That said, French funds are not particularly cheap; investors would benefit from lower-expense options.

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

For Regulation and Taxation, France is above average due to its tax structure. Investors in France are only subject to taxes on fund investments upon distributions or sales, meaning that a long-term investor can postpone tax payments for many years, or even decades. Other regulatory and tax items are fairly typical; one area in which France could stand to improve is the regulation of advertising.

In general, Sales and Media practices are helpful in France. France does permit sales contests for funds, which is a drawback for investors, but it strictly prohibits so-called directed brokerage arrangements. The media in France are strong, sometimes pointing out the merit of long-term investing and almost always mentioning the negative impact of high fund costs. Finally, minimum investments of French funds are quite low.

Disclosure rates a C. The main areas that need improvement are the frequency of holdings disclosure, the lack of a comprehensive centralized website, and the lack of portfolio manager information.

France's grade for Fees and Expenses is also a C. France's money-market funds have attractively low expense ratios, but its stock and bond funds tend to be priced higher than those in most other countries. In addition, investors face asymmetric performance fees that reward portfolio managers for good performances, but do not punish them for failure. Finally, fewer than 25% of mutual funds available in France are free of loads.

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Germany

Grade C+

German fund investors have a fairly typical experience. Germany scores slightly better than most for fees and expenses, and—rather surprisingly given the source—somewhat below the norm for the effectiveness of its regulator. Germany's overall grade is a C+.

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

Fees and Expenses for German funds are slightly better than the norm, with locally domiciled equity funds being the most attractively priced. As with other European countries, German funds often carry asymmetric performance fees that reward success but do not punish failure. Fewer than 25% of mutual funds are free of load charges. Investors in Germany would be well served by a low-cost, no-load competitor entering the market.

With Regulation and Taxation, German investors enjoy the common European benefit of having easy access to non-domiciled funds, and the protection of a mandatory fund board (although there is no requirement that any members of the board be independent). Surprisingly, given the source, German regulation is not particularly effective. In particular, regulation of fund advertising needs improvement.

In Germany, the latter part of Sales and Media is better than the former. The media in Germany make an attempt to focus on the long term, and almost always mention the negative impact of high fund costs. Sales practices on the other hand are less helpful for investors. Sales contests and favored compensation of the sale of particular funds remains a common and lightly regulated practice. In addition, the German fund market remains quite closed with only between 20% and 50% of funds sold through an open-architecture system.

German Disclosure is not especially strong. The lack of a centralized website for German fund filings is disappointing, as is the lack of a written report by management in fund shareholder reports. German disclosure could also benefit from showing more a fund's expense ratio than just a single year, as a longer history would show trends.

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Hong Kong

Grade C

Hong Kong's overall grade of C arises from excellence in a single area, and average-to-poor performance elsewhere. Hong Kong's tax structure is one of the most attractive for investors among the 22 countries in this survey. In other areas of investor experience, Hong Kong could stand significant improvement.

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

Hong Kong's high score for Regulation & Taxation owes to its complete lack of investment taxes. In Hong Kong, only wages or direct profits are taxed; capital gains, dividends, and interest receipts are not. Less happily, Hong Kong's regulatory body the SFC could be more fully staffed, as enforcement is spotty. Hong Kong's regulators are not particularly weak as most countries in this survey score similarly—but neither do they excel.

Hong Kong Disclosure has several gaps. Hong Kong lacks a simplified prospectus, although that gap is largely served by fund fact sheets. Funds in Hong Kong are not required to include a management discussion of performance within shareholder reports, and do not typically provide this information voluntarily. Finally, Hong Kong does not disclose the names of its funds' portfolio managers.

Hong Kong's Sales and Media score is depressed by its shortage of independent coverage of mutual funds. In Hong Kong, media information on funds is often sponsored by an investment manager. With sales practices, Hong Kong discourages the small investor through its high investment minimums, but automated savings plans frequently waive minimums. Better for investors is the country's uncommon habit of banning sales contests for funds among financial advisors.

With Fees and Expenses, Hong Kong is hampered by above-average expense ratios for its stock and fixed-income funds. In addition, funds in Hong Kong are allowed to charge asymmetric performance fees that reward managers for outperformance but do not punish them for underperformance. On the bright side, Hong Kong's money-market funds are fairly reasonably priced, and Hong Kong investors do enjoy access to a large number of no-load investments.

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India

Grade B

India is not afraid to be different, being the only country in this survey to have banned funds' front-end load charges, and one of only two countries where portfolios are typically disclosed monthly. India's main drawback is high fund expenses. Overall, India scores a B, which is high for an emerging fund market.

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

India has excellent Disclosure. Funds in India generally provide portfolios on a monthly basis, they show the names of their portfolio managers (some also provide manager tenure), and they publish three years' worth of expense-ratio history. The Indian fund association maintains a central Internet site that contains offering documents, which is helpful—although investors would be aided if the site were expanded to include all fund literature.

Sales and Media practices are also good. Indian investors enjoy an open sales system, as the vast majority of fund distributors offer the choice of multiple fund providers. Low investment minimums make Indian funds widely accessible to middle-income buyers. For its part, the media does well in reporting on a daily basis about mutual funds. Unfortunately, these articles rarely discuss fees when they are high and they rarely promote long-term investing.

Fees and Expenses in India are high. India is one of only four countries in this survey with equity-fund annual expenses that exceed 2%, meaning that Indian investors pay double what those in the lowest-cost countries are charged. Indian fixed-income and money-market funds are not cheaper. India has attempted to compensate for these costs by banning front-end load charges; however, this move has proved controversial with financial advisors and fund sales have since declined.

Indian Regulation is a mixed bag. Indian regulators are quite permissive in allowing Indian funds to arrange soft-dollar arrangements without any required disclosure. Also, Indian investors face capital controls that limit their ability to invest in foreign securities. Each of these practices is quite uncommon. On the other hand, India has been actively modernizing its fund laws, and the regulator is proactive in identifying violators of securities laws.

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Italy

Grade C

Italy's overall grade is C. High fees and expenses characterize funds in Italy, and confusing simplified fund documents do not help investors as intended. At least taxes are reasonably low.

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

Italy's modest dividends and capital-gains tax rates help it fare well for Regulation and Taxation. Italian tax policy does have a couple of quirks. Italy requires that fund investors pay annual taxes on unrealized gains and Italy has only a limited number of funds that are eligible for tax deferral in retirement savings plans. Overall, though, the tax burden is moderate.

Italy's Sales and Media practices are each average. With sales, Italy suffers by being dominated by the single channel of banks, as multiple channels give investors more options. Also, funds tend to have high minimum initial investments. However, Italy unlike many countries regulates the practice of favored compensation for the sale of specific funds. Media items are similarly mixed, as the benefits of widespread coverage are offset by the drawbacks that these articles rarely promote long-term investing.

Italy's mediocre Disclosure grade reflects the weak simplified prospectuses, which contain too little information about the specific risks of the fund and too general a description of the investment strategy. Italy also disappoints in not requiring disclosure of the name of the portfolio manager, and in lacking a centralized website for fund information. More happily, Italian disclosure of fund expenses is generally very good.

Italian Fees and Expenses are steep. Both available-for-sale and domiciled funds in Italy have above-normal expense ratios. With annual expenses of about 0.80% per year, Italian money-market funds are particularly expensive. Italian investors suffer from a shortage of no-load funds.

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Japan

Grade C+

Japan's overall grade is C+. Japan has favorable tax rates and reasonably helpful media treatment of funds; however, it also has some notable gaps in disclosure.

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

Japanese Sales and Media practices are generally attractive. Japan has the advantage of an open-architecture system whereby investors typically select among several fund families when buying a fund. Low minimum investments make most funds accessible to the smaller investor. The media does a decent job of promoting long-term investing and of educating investors on the affect of fees, although Japan is not a survey leader in that regard.

Japan's Fees and Expenses are near the global averages, with low costs for locally domiciled money-market funds being the most attractive feature. One disadvantage of Japanese fees is the prevalence of front-end load charges, as more than half of Japanese funds carry front-end loads. Unlike in many countries, only large investors have the ability to negotiate loads in Japan.

With Regulation and Taxation, Japan scores well for its tax rates. Short- and long-term gains and dividends are all taxed at between 10% and 20% for the typical investor. In addition, investors only pay capital-gains taxes upon selling a fund, as opposed to receiving annual distributions. Unfortunately, Japan does not offer tax incentives for long-term investing. Japan's regulation is adequate with bright spots being the requirement that the custodian of fund assets be fully independent of the fund manager, and the infrequency of soft-dollar arrangements.

Unusually, Japan's Disclosure requirement does not include the calculation of an overall expense ratio. Although disclosure of the expense components is comprehensive, enabling informed parties to calculate their own ratios, requiring this much work of investors is not a best practice. Neither are Japan's simplified prospectuses, nor is the lack of a centralized website for fund documents.

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Netherlands

Grade B

Netherlands' overall grade is a solid B. Netherlands is average to above average across the board. Among its strengths are its low effective taxes on investments and good simplified prospectuses. Certain aspects of disclosure could stand improvement.

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

For the most part, Sales and Media practices in Netherlands are investor friendly. The existence of several distribution channels helps to foster choice, as does the fact that most distributors sell funds from many fund families. Low or no investment minimums make funds widely accessible. However, sales practices would be better if Netherlands were to cut back on the accepted practice of sales contests. Media in Netherlands are fairly typical, both in amount and quality of coverage.

The best aspect of Netherlands' Regulation and Taxation is the country's lack of a direct tax on either capital gains or dividends. Investors do face an indirect wealth tax that begins at the modest level of €55,000, as well as a VAT tax. Nonetheless, the overall tax burden on fund investors is fairly low by European standards. Also unusual by European standards is the strictness of Netherlands' fund boards, which are two-tiered and require three independent members.

Dutch Fees and Expenses fall mostly in line with those elsewhere in Europe, in part because Netherlands as with other European countries features many Luxembourg-based funds that sell across borders. Locally domiciled stock funds tend to be cheaper than the cross-border funds; on the other hand, local money-market funds are relatively expensive.

Strengths of Netherlands' Disclosure policies include clear and concise simplified prospectuses that contain three years of expense ratios, a turnover ratio, and full portfolio holdings provided semi-annually (quarterly would be best practices, but semi-annually isn't bad). Weaknesses are the lack of a central website containing fund literature, and that the name and tenure of a fund's portfolio manager is a voluntary rather than a required disclosure.

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New Zealand

Grade D-

New Zealand's' overall grade is D-, the lowest of any country in the survey. New Zealand has severe problems with disclosure, as portfolios are not typically published and calculations for expense ratios are not standardized. In addition, regulation has historically been inadequate, although encouragingly the Ministry of Economic Development has recognized the problem. The good news is that fees are low to average—although with New Zealand's poor disclosure requirements, an asterisk should be attached to that statement.

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

New Zealand's reported Fees and Expenses appear to be low, particularly for a small marketplace. Fixed-income funds also show well under the international average. However, there are some questions on the accuracy of these figures as there is no standardized method in New Zealand for calculating fund expense ratios. Our local analysts report that many firms solely report management fees to databases, excluding administrative costs.

New Zealand is slightly below average for Sales and Media. New Zealanders generally have access to choice as most sales platforms offer funds from a variety of fund families, and New Zealanders can avoid high minimums by using automatic investment plans. Less happily, however, sales contests are poorly regulated with little or no disclosure to the investor. This practice creates conflicts of interest between the sales agent and the investor.

New Zealand's Regulation and Taxation needs to improve. New Zealand has suffered several recent fund-industry scandals and would benefit from a higher staffing level among its regulators. And taxes are complicated. Tax rates on dividends tend to be around 28%, but investors have to navigate a dividend imputation regime that credits dividends for corporate taxes paid. Out of the countries in this survey only Australia and New Zealand currently use a dividend imputation system. New Zealand investors are not rewarded for holding for the long term, as there is not a tax break for long-term gains as opposed to short-term gains. Finally, the complex tax system in New Zealand effectively causes investors to pay taxes on unrealized capital gains as well as realized gains on foreign holdings. Overall, despite this complexity, the total tax burden in New Zealand is just above average.

New Zealand also receives the survey's lowest score for Disclosure. Funds in New Zealand are not required to publish portfolio holdings, and this information is rarely available even to professional analysts. New Zealand also does not require that expenses be presented in a ratio format, the disclosure of trading costs, or the name of its funds' portfolio managers.

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Norway

Grade C

Norway's overall grade is C. Norway has strong investor protections and good tax benefits from longer-term investors, but the funds available for sale to investors tend to be expensive, and disclosure is not particularly good.

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

Norwegian investors fare well for Regulation and Taxation. Norway rewards long-term investors by taxing long-term capital gains only the amount that exceeds what could have been earned from a risk-free investment. Additionally, Norway is one of only five countries in this survey that permits all its funds to be used in tax-deferred retirement savings plans, although each retirement plan sponsor has discretion to include as few or as many funds with its plan. With regulation, Norwegian funds offer investors the benefit of an independent board of directors.

Norway's Sales and Media grade is boosted by the country's ban on sales contests—a common and investor-unfriendly practice. Less helpful is the country's reliance on closed sales channels, as opposed to open architecture whereby the funds from many families are offered in single place. The media in Norway rarely mention if fund costs are high; that habit could and should be improved.

Fees and Expenses in Norway are fairly high. Actually, locally domiciled fixed-income funds tend to be low cost, but other locally domiciled funds are not as cheap, and the outside funds that are available for sale in Norway tend to be expensive. Norway also has a high proportion of funds that carry front-end loads. On the positive side, Norway is one of only two countries that require symmetry in performance fees, so that investment managers face penalties for failure in addition to rewards for success.

Norwegian Disclosure is poor on the critical item of expenses. Expense ratios are not calculated in a uniform format and are typically available only in the financial statements. Additionally, trading costs are rarely available for investors. Elsewhere for disclosure, the news is better. Management's discussion of fund performances tends to be good, and although portfolios are only required to be published annually, monthly disclosure is quite common.

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Singapore

Grade A

Singapore's overall grade is an A—tied with the United States for highest in this survey. Singapore has a strong regulatory regime with an absence of most investment taxes. Regulations ban sales practices that are most rife for abuse, and disclosure is good. Singaporean funds could carry lower costs.

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

Singapore's Regulation and Taxation is a model for other countries. Singapore's regulator is fully staffed and proactive. The Monetary Authority of Singapore has been active in policing the fund industry and is also effective at regulating advertisements. With taxes, Singapore has no capital gains taxes on funds, and fund distributions are exempt.

Singapore also does well with Sales and Media. Sales contests are not an accepted practice in Singapore, and fund-specific incentives for selling a particular fund are limited. The absence of these practices helps align advisors' interests with investors. Singapore also offers investors choice as Singapore is one of only two countries in this survey that has more than 80% of funds sold through open platforms that offer funds from a wide variety of families. Finally, Singapore accommodates the small investor by offering automatic investment plans that do not have a strict investment minimum.

Singapore's Disclosure is reasonably good but has some gaps. Singaporean funds only selectively disclose the name of their portfolio managers. The country also is only one of two in this survey to substitute factsheets for simplified prospectuses—a reasonable approach but the factsheets omit some helpful information that is standard on a simplified prospectus. The Monetary Authority of Singapore has adopted regulations, that should make disclosure more closely resemble foreign simplified prospectuses in the future. Singapore has a centralized website, OPERA, that includes offers and prospectuses, but not all required fund literature.

Singapore's Fees and Expenses are the least-attractive aspect of the country for fund investors. Annual expenses are not particularly cheap, and are downright expensive for fixed-income funds that are available for sale in the country. Most Singaporean funds, both available for sale and locally domiciled, charge front-end loads. As with many countries, Singapore funds carry asymmetrical performance fees that pay managers for good results but do not penalize them for poor results.

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South Africa

Grade C-

South Africa's overall grade is C-. South African funds have fairly attractive expense ratios, but disclosure should be improved and the country's capital controls are not investor friendly.

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

Fees and expenses on funds in South Africa are reasonable. South African stock and money-market funds carry annual expenses that are roughly in line with the global averages, while fixed-income funds are relatively cheap. Both available-for-sale and locally domiciled fixed-income funds in South Africa carry lower expense ratios than in most other countries.

South African Sales and Media practices are better for media than for sales. South Africa is one of only two countries that permit the practice of directed brokerage, which can lead to high trading costs for funds. Sales incentives and sales contests are common in South Africa—thereby putting investors at risk of being put into funds that might not be right for them. The media only irregularly write stories about the fund industry. However, South Africa has thriving television and radio coverage of investments, and when funds are covered the stories do tend to promote long-term investing.

South Africa's grade for Regulation and Taxation is hurt by its foreign investment limitations. These limits lower the availability of foreign-domiciled funds and reduce the strategies that investment managers based in South Africa can undertake. Also, the regulator is perceived as understaffed. Taxes in South Africa are lower than those in many countries, although this advantage is partially offset by the lack of a capital-gains tax advantage for long-term investors.

Disclosure in South Africa is weak. Funds must present their current expense ratios, but there is no historical comparison available. Investors rarely can determine what portion of fees pay for various fund operating expenses, and trading costs are infrequently disclosed. Funds are not required to provide full portfolio holdings to prospective investors.

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Spain

Grade C

Spain's overall grade is C. The drawbacks of above-average fees and a closed distribution system that gives fund investors relatively few choices, are somewhat mitigated by generous tax deferrals and a comprehensive investor information website.

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

Spain's tax treatment of capital gains helps it toward a good score for Regulation and Taxation. Unusually, Spanish fund investors can indefinitely defer capital gains taxes if they reinvest proceeds of fund sales into another qualified fund. With regulation, Spain fares reasonably well, although the country falls short in not requiring its funds to have a board of directors.

Spain's Disclosure is good aside from its policy of not providing the names of its funds' portfolio managers. Spain's requirement of quarterly shareholder reports containing full portfolio holdings is a global best practice. A website in Spain now presents historic expense information for five years for all listed funds. This too represents best industry practices. Expense ratios are comprehensive, although it can be hard to find itemized details.

Spain's Fees and Expenses are too high. Spain is the only country in this survey where the locally domiciled funds are as costly as the typical fund available for sale in the country. In particular, locally domiciled equity and money-market funds are among the most expensive in this survey. On average, investors in local funds pay more than 2% annually in stock-fund expenses, and more than 0.80% for money-market funds.

Spain has several weaknesses in Sales and Media. Advisors receive incentives for selling certain funds, as well as awards for increasing the level of fund sales. The media's daily articles on finds sometimes discuss costs, but rarely mention long-term investing. Smaller Spanish investors do have easy access to funds, as minimums are rare and typically are very low for locally domiciled funds. However, most Spanish investors buy funds from platforms that only offer a limited selection of fund families.

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Sweden

Grade B-

Sweden's overall grade is B-, placing it in the middle of the pack. Strong disclosure requirements are offset by a closed distribution system that restricts investor choice, and by sales practices that allow conflicts of interest.

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

Swedish Disclosure is among the world's best. Sweden is one of only six countries in this survey that publish the portfolio manager's name (although investors would benefit if tenure were included as well). Sweden also requires that portfolio holdings be disclosed quarterly, available on a centralized website. Finally, management's portfolio discussions are excellent, as Sweden is one of just four countries in this survey where the discussions firmly explain why the funds performed as they did.

Fees and Expenses for Swedish funds are mostly typical. Expenses for fixed-income funds available in Sweden are too high (locally domiciled fixed-income funds are better priced), but stock and money-market funds are about average. Fewer than 25% of available-for-sale funds are sold without load, so most investors pay an upfront sales charge in addition to ongoing expenses.

Perhaps predictably, Sweden's score for Regulation and Taxation is hurt by the country's high tax rates. Capital gains and dividends are treated as income, with a maximum marginal tax rate between 30% and 39%. Sweden fares better with regulation, but the regulator could use more staffing, and the oversight of advertising is only somewhat effective.

Sweden needs to improve its Sales and Media practices. Fund-specific sales incentives and sales contests are accepted practices in Sweden, meaning that investors may be placed into funds for other reasons than suitability. Swedish investors face a somewhat closed market, with most funds sold through platforms that carry few fund families. The media in Sweden only occasionally write about fund investing. One positive note: Swedish funds are quite accessible to investors, as local funds have low or nonexistent investment minimums.

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Switzerland

Grade B-

Switzerland's overall grade is B-. Comprehensive regulation and low fees help Switzerland overcome below-average sales practices and media coverage.

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

Switzerland's Fees and Expenses are better for local funds than for funds available for sale. Swiss investors choosing among locally domiciled funds choose from among the least-expensive equity funds in this survey, and from fixed-income funds that average ongoing expenses of less than 0.60%. In contrast, available-for-sale funds are at the global norms.

Swiss investors fare well for Regulation and Taxation. Although dividends are taxed at Switzerland's high rates for earned income, capital gains are not taxed at all. Funds must have boards of directors, which is not consistently true in Europe; however, the boards needn't be independent. One item Switzerland does not do very well is regulation of fund advertising, which is lax.

Switzerland does not stand out for Disclosure. Most Swiss disclosure matches typical global practices, although Switzerland does fall short in being one of only four countries in which management's discussion of performance is not required and is infrequently provided. Switzerland does succeed at making fund literature available to investors. The Swiss fund association sponsors a website containing all required fund filings, with many available in multiple languages.

Swiss Media and Sales practices are the country's weak link. There are no specific sales practices at which Switzerland is particularly poor, but unlike most countries there are no areas where Switzerland is above average either. As with many countries, Switzerland permits the investor-unfriendly practices of sales contests and fund-specific sales incentives. Swiss media coverage falls short. The media rarely promote long-term fund investing or mention the impact of high fund costs.

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Taiwan

Grade B

Taiwan's overall grade is B. Low taxes and an effective regulator place Taiwan above average overall. Taiwan's main drawback is the high cost of funds available for sale in the country.

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

As with most Asian countries, Taiwan's score for Regulation and Taxation is helped by its tax policies. There are few taxes on capital gains in Taiwan, although investors are subject to contingent taxes if investment income exceeds a threshold. Taiwanese regulators are fully staffed and effective, aside from the regulation of advertisements, which is spotty. Taiwan does suffer from investment restrictions. Funds in Taiwan may not invest more than 10% of assets in securities issued in China. Also, there is a limited selection of funds that qualify for retirement benefits.

Taiwan's Disclosure benefits from the country's uncommon requirement that fund companies disclose both the name and tenure of the portfolio manager. Investors in Taiwan enjoy frequent access to portfolio holdings, with quarterly disclosure required. In Taiwan a centralized website is available for investors to easily access fund filings. However, full shareholder reports are only required of funds annually, which is less frequent than most countries.

Taiwan is average for Sales and Media practices. Sales contests and fund-specific sales incentives are common in Taiwan, a trait shared with most countries in this survey. Taiwanese investors face strict investment minimums for funds available for sale, but locally domiciled funds are more accessible. The Taiwanese media covers funds daily, but their coverage rarely mentions costs and only sometimes advocates long-term investing.

Taiwan's Fees and Expenses are fairly high. Both locally domiciled and available-for-sale equity funds are in the upper bracket for annual expenses. The news is better with local fixed-income funds, which are quite cheap, but once again the available-for-sale funds are priced above the global norm.

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Thailand

Grade A-

Thailand scores a strong A-. Thailand benefits from excellent disclosure, no capital-gains taxes, and reasonably attractive fees. Sales practices are not as strong, with sales contests and poor media coverage. In addition, Thai funds face some investment restrictions.

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

Thailand's Fees and Expenses are below average for fixed-income funds, and about average for equity and money-market funds. Unlike most other countries in this survey, Thai funds only sparingly use asymmetrical performance fees—an investor-unfriendly structure that pays fund managers on the way up, but does not penalize them on the way down.

Thailand's Disclosure stands out in a number of areas. Thailand is one of only six countries to have itemized, comprehensive fee information—presented both in currency terms and as a ratio of total fund assets. Thailand discloses the name of the portfolio manager, although the tenure of the manager is not commonly given. Investors in Thailand also benefit from good simplified prospectus and from having access to all fund literature on a central website.

Thailand is fairly unremarkable for Regulation and Taxation. The regulator is adequately staffed, but the regulation of advertising is only somewhat effective. There is a requirement of a mutual fund supervisor that carries many of the responsibilities of a board of directors. Thai funds do face investment restrictions as funds must apply with the regulator to invest in securities issued outside of Thailand. With taxes, Thai investors benefit from not facing capital-gains taxes, although taxes on dividends and interest income are quite high.

Thailand could improve its Sales and Media Practices. Sales contests and fund-specific sales incentives are common in Thailand, with little oversight. With distribution, the Thai fund market is quite closed, with less than 20% of funds being sold through open-architecture platforms that offer funds from a wide variety of fund families. The media frequently write about mutual funds, but not very helpfully, as it is rare for them to discuss high costs or promote long-term investing.

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United Kingdom

Grade C+

The United Kingdom's overall grade is C+. The UK scores near the middle in all areas. The country's strengths are its regulation and its sales practices, whereas its weakness lies in its funds' moderately above-average fees.

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

In the United Kingdom, Sales and Media Practices benefit from the prohibition of sales contests and the strict regulation of fund-specific sales incentives. Investors enjoy choice as there is a full spectrum of distribution options, with the vast majority of funds sold through open-architecture platforms that offer funds from many families. While investment minimums are high, it is common for investors to avoid these minimums with automatic purchase plans. The ongoing Retail Distribution Review will likely have profound impacts on fund distribution in the coming years.

Disclosure is the United Kingdom is average. Bright spots include useful and clear simplified prospectuses, a currency example of the effect of fund expenses, and frequent disclosure of the name of portfolio manager (although not the tenure). The United Kingdom could improve the experience of investors by promoting the creation of a centralized website with fund filings, as investors presently must search far and wide for fund literature.

With Regulation and Taxation, the United Kingdom is better at the former. The regulator is very adequately staffed, regulation of advertising is effective, and fund custodians must be fully independent of fund managements. Taxes are not so friendly. The UK offers tax preferences for certain accounts. However, for taxable investors, the news is not good—long- and short-term gains, as well as income, are all taxed at high rates.

UK investors pay relatively high Fees and Expenses. Whether available for sale or locally domiciled, none of the country's fund types rate as cheap, and locally domiciled fixed-income funds are outright expensive. As with many other countries in this survey, UK funds often carry asymmetric performance fees that pay fund managers on the way up, but which do not dock them on the way down.

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United States

Grade A

The United States shares this survey's highest grade of A (with Singapore). Transparency and competition have helped to create global best practices in disclosure, sales practices, and costs. The U.S. tax code is not particularly investor friendly, however.

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

With the lowest expenses ratios globally for both its equity and fixed-income funds, U.S. Fees and Expenses are excellent. (Not so for money-market funds, which in the United States are often treated as profit centers by fund companies.) In addition, the United States offers a high number of funds with no-load charges. However, U.S. expenses are somewhat understated due to the number of investors who pay for investment advice outside of fund-related charges.

The United States requires comprehensive Disclosure. In addition to matching global best practices in other areas of disclosure, the United States uniquely requires the disclosure of management compensation schemes, as well as the amount that managers have invested in their own funds. The United States has a centralized website with all fund filings available online. However, this information is often spread among multiple fund filings, which can make finding the relevant data difficult.

Sales and Media practices treat investors well in the United States. The media cover the fund industry on a daily basis, often promote long-term investing, and sometimes mention funds' costs. Most funds are sold through open-architecture platforms that feature a variety of fund families, and all sales channels are widely available for investors. Funds are accessible to the smaller investor through automatic purchase plans. One area of concern is the payments made by fund families to fund distributors in exchange for shelf space.

The U.S. weakness lies in Regulation and Taxes. The regulatory agency, the SEC, has struggled to maintain adequate staffing, and has difficulty identifying violations in a timely manner. On a positive note, the United States does require a board of directors with independent members. Taxes are a sore spot in the United States. The country's tax rate for short-term gains are among the highest in this survey, and the United States is one of only five countries that taxes the capital gains generated by funds themselves.

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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 Investment and Financial Services Association (IFSA), a trade organization that represents the retail and wholesale funds management, superannuation, and life insurance industries, plays a significant role in imposing standards and guidelines for participating members.

The laws that govern the investment industry are the Financial Services Reform Act 2001 and the Managed Investments Act 1998. The 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.

ASIC is responsible for regulations of investment funds. Regulations are somewhat up to date, but can be delayed and only partially address known problems. Regulators are adequately staffed and enforcement is comprehensive but not proactive in identifying new areas of regulatory risk. Some enforcement actions are public, but publication of regulatory actions against a fund is released on a case-by-case basis. The regulation and supervision of fund advertisements are perceived as effective and prevent misleading or deceptive fund promotions.

All countries in this survey, including Australia, require funds to be audited by an independent party at least once a year. In Australia, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two organizations can be subsidiaries of the same holding company. The ASIC Regulatory Guide requires that the duties of custody staff 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 favors such as entertainment. Soft-dollar arrangement is an accepted practice in Australia, and funds with these arrangements are required to disclose them.

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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.

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 interest of the unitholders. The SRE can be either external or internal (the same as the manager). If the SRE does not have a board comprised of a majority of independent directors, it must have a compliance committee. The duties of the SRE or the independence compliance committee is limited to monitoring that the SRE complies 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 companies.

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

Australia's tax regime taxes long-term capital gains at a lower rate than short-term capital gains, which promotes long-term investing. Short-term capital gains are taxed at a maximum marginal rate of 45%, long-term capital gains are taxed at a maximum marginal rate of 22.5%, and the top marginal rate on income and dividends is 45%. Australia has a dividend imputation system that credits investors for the local corporate taxes paid, lowering the effective tax rate on dividends. Fund investors in Australia are responsible for taxes on realized capital gains and income earned within their fund investments annually.

Most goods and services in Australia are subject to Goods and Services Tax (GST). It is common practice for this tax to be aggregated with other management costs and not itemized, but this tax increases the cost of fund management.

Disclosure

In Australia, funds are required to publish annual reports separately from offering documents, but there is no requirement for funds to publish a simplified prospectus. Prospectuses in Australia are known as Product Disclosure Statements. A typical document was condensed for all funds available through the fund sponsor. While the language was found to be free of unnecessary technical language with various investment risks thoroughly explained, the information was spread throughout the document.

In addition to the product disclosure statement, fact sheets are also available. One included fund performance returns, top holdings, sector breakdown information, and the names of sub-advisory firms. Another piece of

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marketing literature profiled the sub-advisor for a specific fund. This information included the name and tenure of the portfolio manager despite Australia having no requirement for funds to provide this information.

In Australia, fund companies must publish annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company and published within three months after the fiscal year ends. There is little information other than audited financial statements within the annual report. Fund companies are not required to publish a section on management's discussion of fund performance in the annual report, and it is rare for funds to provide a performance discussion in a separate format. The detail of this discussion is generally quite basic and could be improved. Most countries within this survey provide both a semi-annual and annual report, in this respect Australia fails to meet industry best practices.

Remarkably, mutual funds in Australia are not required to publish a full and complete disclosure of the portfolio holdings. In an otherwise sophisticated fund market, Australia's refusal to even approach global best practices on disclosure is surprising—and unacceptable. Worse, Australian funds rarely provide this information to investors voluntarily.

The regulation in Australia requires that all expenses be disclosed in the Product Disclosure Statement (PDS) and the Periodic Statements. These reports provide the current total expense ratio but do not contain ratios for past years. Neither the periodic statement nor the financial statements itemize the expenses such that an investor can understand what portion of fees pays for specific management and administrative expenses of the fund. Within the product disclosure statement the management fees were presented, as well as administrative costs , and a comprehensive total expense ratio following the IOSCO definitions. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is available. The standardized example is based on a balance of $50,000 and a $5,000 contribution during the year. The contribution fee (for example, $0 to $200) and the management fee (for example, $800) are shown, and a total amount is provided. The ASIC Disclosure of Fees and Charges for Superannuation and Managed Investment Products guideline requires uniform representation of fees and expenses with the intention of allowing investors to easily compare one fund to another.

The cost of trading securities is not disclosed to investors.

Mutual funds are not required to publish a full and complete disclosure of the portfolio holdings, and fund companies rarely provide this information voluntarily.

Funds are not required to provide the name and tenure of portfolio managers, nor is information on the manager's compensation structure or the manager's investment within the fund provided to investors.

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

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Fees and Expenses

In Australia individual investors only have the choice to invest in offshore funds domiciled in Hong Kong or New Zealand. Quantitative analysis of TERs for domiciled and available-for-sale funds indicates that they have very similar overall expense ratios.

The median asset-weighted expense ratio for fixed-income funds in Australia is 0.75%.

The median asset-weighted expense ratio for equity funds in Australia is 1.16%.

The median asset-weighted expense ratio for money market funds in Australia is 0.35%.

In Australia less than one half of funds report charging front loads and more than half of funds are classified as no-load funds.

Australian investors have the ability to negotiate sales loads with their financial advisors. Many funds and fund platforms also offer standardized rebates on sales charges based upon the level of investment.

In late April 2010, the Australian government announced plans to ban provider commissions and trailers on superannuation funds beginning July 2012. There have been additional proposals in Parliament that aim to extend this ban to all products. The Financial Planning Association has stated that its members must be free of these commissions on all products by the time the superannuation ban goes into effect. These prospective changes have not been included in this year's scoring.

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

Investors in Australia sometimes pay for advice in addition to loads and TERs.

Sales and Media

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not prohibited, but are uncommon. The Investment and Financial Services Association (IFSA) is a fund industry self-regulating body promoting best practices for funds and requiring these practices of its members. The IFSA has issued principles outlining when and how alternative brokerage arrangements are permitted. Its principles state, "Investment Managers have a fiduciary and statutory duty to act in the best interests of their investors in respect of investment decisions made on their Investors' behalf. Therefore, no client should expect to be disadvantaged by any Alternative Brokerage Arrangement and should be informed with respect to material aspects of such arrangements."

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"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Australia this type of advertising to retail investors is not allowed. Investors in Australia must sign an acknowledgement of having received a product disclosure statement as part of the account establishment process.

It is a common practice to use sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds. However, the regulators focus on monitoring the quality of advice to investors and the disclosure of remuneration does limit this activity.

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

In Australia, open-end mutual funds are the most common fund-like vehicle for investors to own.

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

Australia has an open-architecture system where more than 80% of the funds are sold through an open platform. Platforms in Australia tend to be guided architecture, where funds from recommended advisors are offered, but not a full spectrum of funds from all advisors. In Australia, an investor has a full range of distribution options, including fund supermarkets, independent advisors, brokerage firms, and direct to fund. Independent advisors and platforms offered from major banks and insurance companies tend to dominate fund sales.

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Belgium

Regulation & Taxation

In Belgium, the Banking, Finance and Insurance Commission (CBFA) is the regulator of financial markets, institutions, and transactions. Its duties include, "prudential supervision of financial institutions, supervision of information and of the operation of financial markets, and supervision of the status of other professionals in the financial sector (brokers, agents and sub-agents)." In addition, the CBFA is entrusted with certain specific tasks with a view to protecting consumers of financial services."

The Law of 6 April 1995 on secondary markets, on the legal status and supervision of investment firms, on intermediaries and investment advisers governs the investment industry. In addition, the laws of Belgium conform to the European Union directives including the Undertakings for Collective Investments in Transferable Securities (UCITS) and the Markets in Financial Instruments Directive (MiFID).

CBFA is responsible for regulations of investment funds. Regulations are considered current and up to date. The regulators are adequately staffed and enforcement is comprehensive but not proactive in identifying new areas of regulatory risk. According to our local analyst, few enforcement actions are public, and the CBFA website only listed approximately two dozen complaints in the last two years. All appear to be warnings on companies falsely representing themselves as investment advisory firms. The regulation and supervision of fund advertisements are perceived as effective and prevent misleading or deceptive fund promotions.

All countries in this survey, including Belgium, require funds to be audited by an independent party at least once a year. In Belgium, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two organizations can be subsidiaries of the same holding company. The CBFA Regulatory Guide requires that the duties of custody staff 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 favors such as entertainment. As a member of the European Union, Belgium'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. The BEAMA code of conduct specifies that alternative brokerage arrangements should be limited to goods and services that benefit fund investors. Soft-dollar arrangement is an accepted practice in Belgium, and funds with these arrangements are required to disclose them.

Belgium allows funds registered in compliance with the UCITS III directive to be marketed to Belgian investors. Foreign funds are somewhat available, but with closed architecture only investors seeking specific products often have access. The typical investor does not take domicile into account when making a fund investment.

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

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

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, but in some cases the underlying fund choices are identical. Often though, the choices within each plan are limited by the insurer.

In Belgium there are no taxes for profits and proceeds obtained through the normal management of one's private assets. Investments held longer than 12 months are considered to be normal management of one's private assets. Short-term gains from transactions shorter than 12 months are considered speculative and taxed at the full tax rate up to 33%. Long-term gains are exempt from taxes. Dividend and interest income can face a maximum marginal income tax rate of 25%. Fund investors only face taxes on capital gains upon the sale of fund shares. In Belgium, taxes on income and dividends are withheld by the issuing corporation prior to being distributed to investors making them subject to taxation annually.

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

Disclosure

In Belgium, funds are required to publish annual reports separately from offering documents, and funds are required to publish a simplified prospectus. Simplified prospectuses in Belgium are standardized documents in a format prescribed by the regulator. A typical document contained a single fund in an 11-page document. The document explains the operations of the fund and the specific risks within the fund. The format includes a descriptive risk chart that should aid an investor in understanding the relative risk of the specific fund.

In addition, the simplified prospectus includes 10 years of fund performance returns with a comparison to the prospectus benchmark. Trading cost information is indirectly provided in the form of a turnover ratio and modified turnover ratio. Fact sheets in Belgium are primarily marketing documents. While subject to CBFA regulations, fact sheets do not contain all the required risk and expense disclosures of a simplified prospectus, but often contain top holdings, geographic, and industry information. The description of the fund is often kept short and it is in most cases vague.

In Belgium, fund companies must publish both annual reports and semi-annual reports. These reports often include multiple funds, but include the underlying components for each fund. The annual report must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal

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year ends. A typical annual report reviewed included a management report, audited financial statements with an itemization of fund costs, and full portfolio holdings. Fund companies are required to publish a section on management's discussion of fund performance in the both the annual and semi-annual reports, but typically these are generic and do not discuss specific portfolio actions and how they relate to fund performance.

The regulation in Belgium requires that all expenses be disclosed in percentage form in the prospectus and in currency terms within the financial statements. These reports provide the current total expense ratio but do not contain ratios for past years. Both the prospectus and financial statements itemize the expenses such that an investor can understand what portion of fees pays for specific management and administrative expenses of the fund. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is not disclosed in Belgium. Fund expenses are presented in a uniform format such that investors can compare funds to each other easily.

In Belgium, the cost of trading securities is indirectly presented in form of a turnover ratio and modified turnover ratio.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings; this information is available in the annual report.

Funds are not required to provide the name and tenure of portfolio managers, although this information is sometimes provided to professional analysts. Neither the manager's compensation structure, nor the manager's investment within the fund is provided to investors.

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

The median asset-weighted expense ratio of fixed-income funds available for sale in Belgium is 1.07%.

The median asset-weighted expense ratio of fixed-income funds domiciled in Belgium is 0.51%.

The median asset-weighted expense ratio of equity funds available for sale in Belgium is 1.93%.

The median asset-weighted expense ratio of equity funds domiciled in Belgium is 1.49%.

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The median asset-weighted expense ratio of money market funds available for sale in Belgium is 0.66%.

The median asset-weighted expense ratio of money market funds domiciled in Belgium is 0.39%.

In Belgium between 50% and 75% of funds available for sale report charging front-loads and more than 75% of domiciled funds report front loads. Less than 25% of both available-for-sale and domiciled funds are classified as no-load funds in Belgium.

In Belgium only very large investors have the ability to negotiate sales loads with their financial advisors.

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 can be described in a confusing format and only sophisticated investors reviewing a fund's performance can estimate costs for the current year.

Investors in Belgium rarely pay for advice in addition to loads and TERs

Sales and Media

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not prohibited in Belgium but are not an accepted practice either. Investment managers in Belgium generally adhere to code of conduct of both the European Fund and Asset Management Association (EFAMA) and the Belgian Asset Managers Association (BEAMA). The code of conduct of BEAMA states, "With respect to the transaction-linked remuneration paid to or received from brokers, it has to be demonstrated that this helps to improve the quality of client service and that it does not compromise the obligation to act in the client's best interests."

"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, it is unclear how frequently this restriction is enforced. Additionally, in many instances consumers in the European Union have cooling-off periods where certain purchases can be canceled.

In Belgium, it is a common practice to use sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds.

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

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In Belgium, fund products linked to insurance contracts are the most common fund-like vehicle for investors to own. Our analysts find that they are perceived as safer products. Additionally, investments linked with insurance products often offer automatic investment plans with more favorable terms than open-end mutual funds.

Mutual funds domiciled in Belgium rarely require an investment minimum of more than a single share. The median investment minimum of available-for-sale funds is between US$1,000 and US$1,499. The median investment minimum of Belgian-domiciled funds is among the lowest in the survey, below US$500.

Belgium has a closed-architecture system where less than 20% of the funds are sold through an open platform. In Belgium, an investor has a limited range of distribution options. Only fund supermarket, and bank and insurance company channels are widely available. Banks and insurance companies tend to dominate fund sales.

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Canada

Regulation and Taxation

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

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

Even though regulation varies among provinces, national policies have been put in place to promote consistency. Standards do exist for the marketing and administration of mutual funds. The Investment Funds Institute of Canada (IFIC) provides guidelines to the industry. The IFIC is a trade association not a self-regulatory organization.

The CSA and the provincial regulators are jointly responsible for regulations of investment funds.

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

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

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

Mutual funds in Canada are often registered as investment trusts and are not required to have a Board of Directors. Fund companies are required to establish an Independent Review Committee (IRC) to consider and provide recommendations to the manager of the fund on conflicts of interest to which the manager may be subject. An IRC may oversee a single fund or an entire fund family; more often the latter.

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Some funds are set up as a share class of a corporate structure. Typically a board of directors would oversee all the share classes that fall under its corporate class umbrella. The boards for the corporate class funds are typically made up of company insiders and do not provide an objective oversight role.

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

Taxation of fund investors in Canada provides incentives to invest for retirement. Contributions to the employer-sponsored Registered Pension Plan are tax deductible for both the employee and the employer. In addition, investors may supplement their income in retirement via a Registered Retirement Savings Plan (RRSP). Money deposited into the RRSP is tax deductible. The investor is taxed at the marginal tax rate at withdrawal. There is no taxation for capital gains, dividends, or interest. The regulation of disclosure and sales practices of the investment choices available within RRP and RRSP plans are identical to taxable fund choices.

On January 1, 2009, the Canadian federal government introduced the Tax-Free Savings Account (TFSA). This provides Canadians with another way to shelter their investments from tax. Money deposited into the TFSA is not tax deductible (as is the case in the RRSP), but gains in this account are tax exempt. Contributions are limited to $5000 annually and withdrawals are tax-free. Thus unlike the RRSP, in which withdrawals are taxed, the gains on investments inside a TSFA are never subject to tax.

There are no differences between short-term capital gains and long-term capital gains tax rates. The marginal tax rate on capital gains is lower than the tax rate on other types of income. This is because only 50% of capital gains are taxed; the other 50% is considered tax-free. The dividends a shareholder receives are taxed at the income tax rate. The shareholder includes the dividend on his or her income plus a gross up of 25% of the dividend received. The outcome is then taxed at the marginal income tax rate. The shareholder can then claim a federal tax credit of 13 1/3% of the grossed up amount and a separate dividend credit from the province that varies by province. The result: dividend income is taxed more favorably than interest income, but not as favorably as capital gains. The maximum marginal tax rate on capital gains, after adjusting for the 50% tax-free allowance is between 10% and 19%. The maximum marginal tax rate on dividends is between 30% and 39%.

Canadian fund investors are responsible for taxes annually on capital gains and dividends earned within their fund investments.

Most goods and services in Canada are subject to Goods and Services Tax (GST). It is common practice for this to be itemized alongside other expenses within the financial statements. This tax increases the cost of fund management. In Canada there are both federal and provincial taxes. Currently, in five of Canada's 10 provinces the GST is combined with the provincial tax to form a single value-added sales tax, called the Harmonized Sales Tax (HST).

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Disclosure

In Canada, funds are required to publish annual reports separately from offering documents, and funds are required to publish a simplified prospectus. Canadian regulations have allowed for the phasing out of full prospectuses, and many funds only publish simplified prospectuses. A typical document appeared to contain all of the funds offered by the provider. The 164-page document contained two pages per fund with many explanations and risk disclosures in the aggregated sections. The fund-specific areas identify which risks are probable for the specific fund but an investor would need to go to the section describing risks in order to find a definition of the risk identified.

The simplified prospectus did not include fund returns. Trading cost information was not provided in the simplified prospectus reviewed. The TER, which is called a Management Expense Ratio (MER) in Canada, was provided with a breakout of management and administrative costs. No portfolio holdings information was included. Although the simplified prospectus was in plain language that a typical investor should understand, the difficulty of navigating a document with more than 50 funds undermines the document's goal of simplicity.

In Canada, fund companies must publish both annual reports and semi-annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. A typical annual report reviewed contained audited financial statements with an itemization of fund costs. Fund companies are required to publish a Management Report on Fund Performance (MRFP) as a separate filing. These contain useful information such as historical MERs, trading expense ratios, and portfolio turnover rates. The 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.

The regulation in Canada requires that all expenses be disclosed in percentage form in the prospectus and MRFP and in currency within the financial statements. These reports provide the current total expense ratio and contain ratios for past five years. The financial statements itemize the expenses such that some investors can understand what portion of fees pays for specific management and administrative expenses of the fund. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is found within the prospectus. Fund expenses are presented in a uniform format and located in fund literature such that investors in can compare funds to each other easily.

The MFRP contains both a turnover ratio and a trading expense ratio defined as the total commission and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period of the annual report.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings semi-annually.

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Portfolio manager information can be found in the Annual Information Form (AIF), a supplemental document to the prospectus. The portfolio manager's name is always published, and sometimes the tenure of the portfolio manager will also be available. Manager changes occurring between annual reporting periods are not required disclosure unless the manager is featured prominently. Many funds list multiple managers and avoid disclosing changes within team members until the AIF is published. The manager's compensation structure information is not provided to investors.

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

Fees and Expenses

In Canada, individual investors do not have the choice to invest in foreign-domiciled funds. The TER of a typical fund available for sale is identical to the typical domiciled fund.

The median asset-weighted expense ratio of fixed-income funds in Canada is 1.31%.

The median asset-weighted expense ratio of equity funds in Canada is 2.31%.

The median asset-weighted expense ratio of money market funds in Canada is 0.80%

In Canada investors can negotiate front-end loads with their financial advisor.

Funds in Canada are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. 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.

Investors in Canada generally do not pay for advice in addition to loads and TERs.

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Fees and Expenses: Note

The Canadian funds marketplace is different than any others in this report in two respects. First, Canada has the highest overall expense ratios, scoring significantly higher than every other country for equity funds, and higher than every country except for locally domiciled Spain funds for money market funds. Second, the Canadian funds community is the only funds groups to claim last year's Global Fund Investor Experience report was methodologically flawed in its treatment of fund expenses. The Canadian funds industry has claimed that major differences between its funds and those of other countries lead to "apples to oranges" comparisons in the Global Fund Investor Experience report.

Morningstar has examined those claims. They are:
Claim: Canadian mutual funds contain "trailer fees" that are used to pay for distribution costs, while funds from many other countries do not.

Counter: With rare exception, every country's funds pay for distribution costs out of their funds' total expense ratios.

2) Claim: Canadian mutual funds have lower front-end load charges than those in other countries, thus it is understandable that Canadian mutual funds have higher ongoing expense ratios.

Counter: Canada's load structure is broadly similar to the global average. In many countries, funds with a front-end sales charge are in the minority, and in many countries as well these charges can and are negotiated to lower levels than are stated in the prospectus.

Claim: Canadian mutual funds must pay a value-added tax that pushes up their official expense ratios.

Counter: The source of the costs is immaterial to the fund investor, and do not obviate comparisons. Also, many European mutual funds also carry value-added taxes.

Claim: Canadian mutual funds are required to show greater transparency in expense reporting than are the funds in other countries.

Counter: Canadian expense disclosure is not materially different than the expense disclosure of the 21 other countries in this survey.

A final claim is made that Canadian mutual fund costs should not be compared to those of the United States, because the U.S. marketplace is much larger and therefore enjoys greater economies of scale. This argument has some merit, but it does not explain why Canadian fund expenses are significantly higher than those in other countries with modest population bases, such as Belgium, Australia, Sweden, Norway, and Hong Kong, to name a few.

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Sales and Media

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

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Canada this type of advertising to retail investors is not allowed, although it is unclear how frequently this restriction is enforced. Additionally, when purchased via telephone or internet fund have 48 hours to supply a prospectus to new buyers.

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 find mutual fund articles in their newspapers on a daily basis. These articles almost always mention mutual fund fees when they are high, and sometimes promote long-term investing.

In Canada, open-end mutual funds are the most common fund-like vehicle for investors to own.

Mutual funds in Canada typically have investment minimums but these are frequently waived for investors in an automatic investment plan. The median investment minimum of Canadian funds is between US$500 and US$999.

Between 50% and 80% of funds in Canada are sold through a distributor with an open-architecture system. In Canada, an investor has a full range of distribution options to choose from including: fund supermarkets, independent advisors, brokerage firms, banks and insurance companies, and direct to fund. No sales channel dominates the market in Canada.

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China

Regulation & Taxation

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

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

The CSRC is responsible for regulation of investment funds. Regulations are considered up to date, and are changed to address known problems arising in the fund industry worldwide. The regulators are adequately staffed and enforcement is proactive in identifying new areas of regulatory risk. According to our local analyst most enforcement actions are public. The regulation and supervision of fund advertisements are perceived as effective and prevent misleading or deceptive fund promotions.

All countries in this survey, including China, require funds to be audited by an independent party at least once a year. In China, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager. In rare instances, due to the merger of companies, existing funds have been allowed to use affiliated custodians.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research related favors such as entertainment. Soft-dollar arrangements are an accepted practice in China, but must be disclosed. All relationships with brokers are disclosed in the shareholder reports; disclosure includes the number of transactions and the costs of commission. In addition, funds are required to disclose criteria used to choose brokerage firms including any research received. The code of conduct mentioned above may limit the use of soft dollars to activities that benefit fund investors.

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

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

In China, permission is required for funds to invest in securities of foreign issuers. Each fund needs a license to invest overseas, and these licenses include limitations on the amount allowed to be invested. China, India, South Africa, and Thailand are the only countries to have investment policies that are this restrictive.

The Chinese government does not offer tax-deferred saving schemes to encourage individuals to invest toward retirement.

Beginning in 2010, Chinese investors are now subject to investment taxes. Taxes on dividend income are withheld by the issuing company at a rate of 10%, and interest income is taxed at a rate of 20%. There are no taxes on capital gains for fund investors in China.

Fund management services in China are not subject to a VAT or consumption tax.

Disclosure

In China, funds are required to publish annual reports separately from offering documents, and funds are required to publish a simplified prospectus. A typical simplified prospectus contained a single fund with the information spread over 35 pages. The first half of the document contained a list of distributors and service providers that is of little use for a typical investor. The investment description was a thorough text-book like description of the investment strategy.

The simplified prospectus included three years of fund returns, which included the entire life of the sample fund. Trading cost information was given as actual expenses of the fund and did not relate to the per-share amounts. The fund maximum management expense was included along with formulas on the calculation of administrative costs. The simplified prospectus also provided the top holdings in each asset class as well as a breakdown of the portfolio by sector and industry Although the simplified prospectus was primarily in plain language that a typical investor should understand, the length of this document at 35 pages for a single fund prevents this from meeting the goals of simplified prospectuses.

In China, fund companies must publish annual, semi-annual, and quarterly reports. The annual report must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. Fund reports are required to contain management's discussion of fund performance; these are considered good by local analysts and tie fund performance to portfolio actions.

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The regulation in China requires that the maximum management fee is disclosed in prospectuses. Actual total expense ratios are not reported, but the components are itemized and available within financial statements such that an investor can understand what portion of fees pays for specific management and administrative expenses of the fund. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is not provided. Fund expenses are presented in a uniform format based upon accounting conventions such that investors can compare funds to each albeit with some effort.

Explicit trading costs are available within the financial statements.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings semi-annually.

Portfolio manager information can be found in the prospectus. The portfolio manager's name and tenure are published. Neither the manager's compensation structure, nor the manager's investment within the fund is provided to investors. But, the fund sponsor's investment within the fund is included in fund literature.

In 2010, China launched a website containing comprehensive current fund literature.

Fees and Expenses

In China, individual investors do not have the choice to invest in foreign-domiciled funds. Therefore, the TER of a typical fund available for sale is identical to the typical domiciled fund.

The median asset-weighted expense ratio of fixed-income funds in China is 0.85%.

The median asset-weighted expense ratio of equity funds in China is 1.39%.

The median asset-weighted expense ratio of money market funds in China is 0.63%.

In China, between 50% and 74% of funds report front loads and between 25% and 49% of funds are considered no-load funds.

Only large investors in China have the ability to negotiate sales loads with the sales agent.

Funds in China are not permitted to charge management fees with any performance-based component. With the absence of performance-based fees, investors in China have a clear understanding what the expenses are expected to be as a percentage of assets.

It is not a known practice for Chinese investors to pay for advice in addition to loads and TERs.

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Sales and Media

Directed brokerage arrangements are technically restricted in China. Article 2 of the CRSC's Provisional Code of Corporate Governance for Securities Investment Fund Management Company states, "The fund management company (the Company) shall adhere to the principle of Protection of the Fund Holders in all aspects of its corporate governance practices, which encompass drawing up Articles of Association, company rules and policies, working procedures, rules of procedures for business discussion, exercise of powers and functions by organizations or business units of different levels of the Company, the business conduct of the Company's employees, etc. In occurrence of the conflicts of interests between the Company, its shareholders, employees, and the fund holders, the interest of fund holders shall always be placed ahead of other parties." Despite this prohibition there is little enforcement of these provisions.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In China this type of advertising to retail investors is not allowed, this provision is enforced in China.

In China, it is a common practice to use sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds. Both of these practices are allowed with little oversight beyond requirements of the Code of Corporate Governance.

Investors in China can find mutual fund articles in their newspapers on a daily basis. These articles sometimes mention mutual fund fees when they are high, and sometimes promote long-term investing. We find this situation improved from a year ago, when the media rarely mentioned costs or long-term investing.

In China, open-end mutual funds are the most common fund-like vehicle for investors to own.

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

Over 80% of funds in China are sold through a distributor with an open-architecture system. In China, only fund supermarkets and bank distribution choices are widely available. Banks and bank-owned Internet platforms dominate fund sales in China.

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France

Regulation & 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 kinds of responsibilities: regulation, authorization, supervision, and enforcement.

The AMF is also responsible for regulating fund advertising and sales practices.

The AMF is responsible for regulations of investment funds. Regulations are somewhat up to date, but can be delayed and only partially address known problems. The regulators are adequately staffed and enforcement is comprehensive but not proactive in identifying new areas of regulatory risk. According to our local analyst most enforcement actions are public. The regulation and supervision of fund advertisements are perceived as somewhat effective.

All countries in this survey, including France, require funds to be audited by and independent party at least once a year. In France, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two organizations can be subsidiaries of the same holding company.

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

France allows funds registered in compliance with the UCITS III directive 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.

Mutual funds in France are not required to have a Board of Directors.

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

France has 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 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.

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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 among.

In France, taxes on short-term capital gains are higher than those on long-term capital gains. Investments held in a PEA account, which are held for more than five years, are taxed at a rate between 10% and 19%. There are limitations on PEA account deposits and exemptions for a certain portion of sales. Fund investments outside of the PEA account are subject to a maximum capital gains tax of between 30% and 39%. Dividends and interest income are subject to a maximum marginal tax rate of between 30% and 39%.

French fund investors are responsible for taxes upon the sale of shares or fund distributions. It is common practice for investors to have the choice between accumulating or distributing share classes.

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

Disclosure

In France, funds are required to publish annual reports separately from offering documents, and funds are required to publish a simplified prospectus. A typical document contained information on only one fund and was nine pages in length. This brevity made the document easier to read than the documents from many other countries. The discussion of the investment objective and risks were specific to the fund and at the level of a typical investor. Fees are presented in aggregate with only the performance fee broken out from the rest of the expense information. The costs of trading commissions are presented as a percentage of assets. The literature includes the last 10 years performance and annualized information for the fund and its prospectus benchmark for the one, three, and five-year periods. The name and tenure of the portfolio manager are not included, nor is any holding information included in the simplified prospectus.

The simplified prospectus has two parts: Part A—a "legal" section that describes legal aspects and operations; and part B—a "statistics" section that provides quantified data about the performance, fees and charges, portfolio turnover, and proportions of transactions carried out with companies in the same group.

In France, funds can elect to use a "free-form" simplified prospectus. This must be made available to all investors and should be a simple investment strategy in which exposure to different types of risks is stable and the risk profile is easy to understand. The free form has the same requirements as the regular simplified prospectus but allows for flexibility in the placement of sections and the naming of headings. Per the AMF, the free-form simplified prospectus must be: clear and balanced; contain no advertising or pure marketing material; and the information must be equivalent to the mandated requirements for the simplified prospectus. Overall the simplified prospectus appeared to meet the goals of simplified prospectuses, concise documentation of fund specific risks, objectives, fees presented in a manner that an individual investor could easily understand.

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In France, fund companies must publish both annual reports and semi-annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. A typical annual report reviewed included management report on operations, audited financial statements with an itemization of fund costs, and a full list of portfolio holdings. In general, the management's discussion on fund performance are generic and do not discuss specific portfolio actions and how they relate to fund performance.

The regulation in France requires that all expenses be disclosed in percentage form in the prospectus and currency within the financial statements. These reports provide the total expense ratio for the most recent fiscal year. The financial statements itemize the expenses such that some investors can understand what portion of fees pays for specific management and administrative expenses of the fund. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is not available. Fund expenses are presented in a uniform format such that investors in can compare funds to each other easily.

Explicit trading expenses are available within fund literature.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings annually, and these are often found in the annual report. Some fund companies publish shareholder reports with incomplete holding information; regulations require that full holdings be available annually to investors upon request.

Portfolio manager information is sometimes available in fund literature but rarely includes information on the tenure of the manager. This is a recent improvement. It is becoming more common for portfolio manager information to be available in France. Neither the manager's compensation structure, nor the manager's investment within the fund is provided to investors.

The AMF website contains certain fund literature but it is incomplete and does not provide access to all required fund documentation.

Fees and Expenses

In France individual investors have the choice to invest locally domiciled funds as well as UCITS funds with distribution operations in France. The TERs of funds domiciled in France are generally in line with those offered from foreign fund sponsors.

The median asset-weighted expense ratio of fixed-income funds available for sale in France is 1.20%.

The median asset-weighted expense ratio of fixed-income funds domiciled in France is 0.63%.

The median asset-weighted expense ratio of equity funds available for sale in France is 1.90%.

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The median asset-weighted expense ratio of equity funds domiciled in France is 1.82%.

The median asset-weighted expense ratio of money market funds available for sale in France is 0.20%.

The median asset-weighted expense ratio of money market funds domiciled in France is 0.19%.

In France between 50% and 74% of available-for-sale funds report front loads and over 75% of domiciled funds report charging front loads. Less than 25% of available-for-sale and domiciled funds are considered no-load funds.

In France, only large investors have the ability to negotiate sales loads with their financial advisors.

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

Investors in France rarely pay for advice in addition to loads and TERs.

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Sales and Media

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

"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.

In France, both the practices of using sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds are accepted practices in France.

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

In France, insurance-linked fund products are the most common fund-like 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 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.

Mutual funds domiciled in France rarely have investment minimums. The median investment minimum of both French domiciled funds and funds available for sale in France is less than US$500.

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

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Germany

Regulation & Taxation

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

There is no regulatory body supervising advertising and sales practices in Germany. The German Asset Management 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.

BaFiN is responsible for regulation of investment funds. Regulations are somewhat up to date, but can be delayed and only partially address known problems. Regulators are somewhat well staffed and not proactive in identifying violations. According to our local analyst, BaFin is staffed primarily with lawyers with insufficient background in financial services to identify many violations in a timely manner. Most enforcement actions are public. The regulation and supervision of fund advertisements are perceived as somewhat effective and only identifies the worst violations.

All countries in this survey, including Germany, require funds to be audited by and 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, and the two organizations cannot be subsidiaries of the same holding company.

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

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

Mutual funds in Germany are required to have a Board of Directors, but there is no requirement of independence.

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

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The German government does offer tax-deferred saving schemes called Riester Rente to encourage individuals to invest toward retirement. The fund products that are allowed under the retirement scheme offer a pre-tax income deferral based on age. These savings plans are generally guaranteed or insurance-linked products.

The German Federal Council introduced a flat tax rate on income and capital gains from capital investments. In addition to interest, dividends, and short transactions, which were already taxable, all capital gains on shares, bonds, certificates, and investment funds are taxable at a rate of 25%. These rules are applicable to all capital investments made after December 31, 2008. Prior to December 31, 2008, interest and other income were taxable at the investor's marginal rate; 50% of a dividend was taxable at the investor's marginal tax rate and 50% was tax exempt; capital gains were exempt from taxes.

German fund investors can defer capital gains taxes indefinitely if proceeds of sales and distributions are reinvested in a qualified fund. Fund investors are responsible for taxes on dividends and interest income annually; these taxes are generally withheld prior to the investor receiving a distribution.
Most goods and services in Germany are subject to Value Added Tax (VAT), it is common practice for this to be aggregated with other fund expenses. This tax increases the cost of fund management.

Disclosure

In Germany, funds are required to publish annual reports separately from offering documents, and funds are required to publish a simplified prospectus. A typical document was a concise six pages in length, including a clear outline of fund-specific risks in language that would be useful for a typical investor. Expenses are in aggregate and present the proceeds of security lending in addition to the TER. There are five years of returns presented in comparison with the prospectus benchmark. The simplified prospectus does not contain trading costs, portfolio holdings information, or the name and tenure of the portfolio manager. Overall the simplified prospectus meets the goals of simplified prospectuses, concise documentation of fund-specific risks, objectives, and fees presented in a manner that an individual investor could easily understand.

In Germany, fund companies must publish both annual reports and semi-annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. A typical annual report reviewed included management report on operations, audited financial statements with an itemization of fund costs, and a full list of portfolio holdings. In general, the management's discussion is not required, when it is provided it is typically generic and rarely connects portfolio decisions to fund returns.

The regulation in Germany requires that all expenses be disclosed in percentage form in the prospectus and in currency within the financial statements. These reports provide the total expense ratio for the most recent fiscal year. The financial statements sometimes itemize the expenses such that an investor familiar with financial statements can understand what portion of fees pays for specific management and administrative expenses of the fund. A numerical example that illustrates the total expenses an investor could expect to pay on an invest-

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ment is not available. Fund expenses are presented in a somewhat uniform format such that investors can compare funds to each other easily.

Although there is no requirement to disclose trading costs, the turnover ratio is typically provided, as a proxy for trading expenses, within fund literature.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings semi-annually, and are found in the semi-annual and annual report.

Portfolio manager information is sometimes available in fund marketing literature but rarely includes information on the tenure of the manager. Neither the managers' compensation structures, nor the managers' investments within the fund is provided to investors.

In Germany, there is no central website containing fund literature for investors.

Fees and Expenses

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

The median asset-weighted expense ratio of fixed-income funds available for sale in Germany is 0.95%.

The median asset-weighted expense ratio of fixed-income funds domiciled in Germany is 0.83%.

The median asset-weighted expense ratio of equity funds available for sale in Germany is 1.80%.

The median asset-weighted expense ratio of equity funds domiciled in Germany is 1.28%.

The median asset-weighted expense ratio of money market funds available for sale in Germany is 0.55%.

The median asset-weighted expense ratio of money market funds domiciled in Germany is 0.50%.

In Germany between 50% and 74% of available-for-sale funds report front loads and over 75% of domiciled funds report charging front loads. Less than 25% of available-for-sale and domiciled funds are considered no-load funds.

In Germany investors have the ability to negotiate sales loads with their financial advisors.

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Funds in Germany 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.

Investors in Germany rarely pay for advice in addition to loads and TERs.

Sales and Media

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

"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 in practice this is enforced.

In Germany, 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 little regulation or oversight.

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

In Germany, insurance-linked fund products are the most common fund-like vehicle for investors to own. Our local analysts believe this is largely due to the commission structure for these products, which is high and encourages their adoption by advisors. Also, the German investment culture historically has been cautious and risk averse. To date the suitability requirements under MiFID have not prevented the continued proliferation of these high-cost products. Additionally, there are tax benefits for retirement savings in guaranteed products sold with an insurance wrapper.

Most mutual funds in Germany require an investment minimum, but in many cases these minimums are waived or reduced for investors in an automatic purchase plan. The median investment minimum of German-domiciled funds is less than US$500 and the median of funds available for sale in Germany is between US$1000 and US$1500.

It is estimated that between 20% and 50% of funds in Germany are sold through a distributor with an open-architecture system. 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 along with online supermarkets dominate fund sales in Germany.

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Hong Kong

Regulation & Taxation

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

Maintain and promote the fairness, efficiency, competitiveness, transparency, and orderliness of the securities and futures industry.

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

The Code on Unit Trusts and Mutual Funds is issued by the SFC as a guideline for the authorization of a collective investment scheme; the Code does not have the force of law.

The SFC is also responsible for regulating fund advertising and sales practices.

SFC regulations are somewhat up to date, but can be delayed and only partially address known problems. The regulators are somewhat adequately staffed and only identify the worst violations. All enforcement actions are public as is required by the SFC Code. The regulation and supervision of fund advertisements are perceived as somewhat effective and only identify the worst violations.

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

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research related favors such as entertainment. The SFC Code of Conduct requires that fund management companies act in the benefit of investors and requires that companies seek best execution when trading securities, and it is disclosed in the investment management agreement. There are equally strict limitations against using soft dollars for travel, entertainment, and general administrative goods or services. While soft dollars are not a prohibited practice, firms are restricted to using these arrangements for research that directly benefits shareholders.

Hong Kong allows funds domiciled in other countries to register for sale to Hong Kong investors. This process is

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streamlined for UCITS III-compliant funds. Foreign-domiciled funds are common in Hong Kong and investors prefer these funds.

Mutual funds in Hong Kong are required to have a Board of Directors, but there is no requirement of independence.

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

The Hong Kong government offers the Mandatory Provident Fund (MPF), and contributions up to 5% of an individuals' salary 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 appear identical but disclosure and other regulations are different than for non-retirement funds.

Fund investors in Hong Kong are not subject to capital gains or income taxes on their mutual fund investments or distributions. Only income and profits derived in Hong Kong are taxable in Hong Kong.

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

Disclosure

In Hong Kong, funds are required to publish annual reports separately from offering documents. There is technically no document called a simplified prospectus. There are strict requirements on what information may be presented in advertisements. The requirements for risk disclosure and other fund information are comparable to many of the requirements of a simplified prospectus. The one-page fact sheet reviewed for this survey clearly outlined risks specific for the fund at hand. The sheet includes three-month, six-month, one-, three-, and five-year performance figures as well as each calendar year since inception. Also included are the funds' sector and security-type breakdown and the top 10 holdings. The TER is not included, only a maximum management fee along with other fund-related costs are listed. The name and tenure of the portfolio manager is not included nor is information relating to trading costs. The required disclosures are an adequate but not ideal substitute for simplified prospectuses.

In Hong Kong, fund companies must publish both annual reports and semi-annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. A typical annual report reviewed included audited financial statements with an itemization of fund costs, and a full list of portfolio holdings. In general, management's discussion is not required, and rarely provided.

The regulation in Hong Kong requires that all expenses be disclosed in percentage form in the prospectus and currency within the financial statements. These reports provide the total expense ratio for the most recent fiscal

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year. The financial statements itemize the expenses such that an investor can sometimes understand what portion of fees pays for specific management and administrative expenses of the fund. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is not available. Fund expenses are not in a uniform format so investors have difficulty comparing funds to each other.

The total explicit cost of trading securities is available within the financial statements.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings semi-annually, and are found in the semi-annual and annual report.

Portfolio manager information is rarely available in fund literature. This information is only typically disclosed when the fund is being marketed based upon a star manager. Neither the manager's compensation structure nor the manager's investment within the fund is provided to investors.

In Hong Kong the SFC hosts InvestEd an investor education website that contains fund offering documents. It only hosts offering documents for funds, and investors have to search further for additional fund literature.

Fees and Expenses

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

The median asset-weighted expense ratio of fixed-income funds available for sale in Hong Kong is estimated to be 1.35%.

The median asset-weighted expense ratio of fixed-income funds domiciled in Hong Kong is estimated to be 1.35%.

The median asset-weighted expense ratio of equity funds available for sale in Hong Kong is estimated to be 1.85%.

The median asset-weighted expense ratio of equity funds domiciled in Hong Kong is estimated to be 1.85%.

The median asset-weighted expense ratio of money market fund available for sale in Hong Kong is estimated to be 0.50%.

The median asset-weighted expense ratio of money market fund domiciled in Hong Kong is estimated to be 0.50%.

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In Hong Kong between 50% and 74% of funds available for sale report front loads and between 50% and 74% of domiciled funds charge front loads. Between 25% and 49% of available-for-sale and domiciled funds are no-load funds.

In Hong Kong investors have the ability to negotiate sales loads with their financial advisors.

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

Investors in Hong Kong rarely pay for advice in addition to loads and TERs.

Sales and Media

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

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Hong Kong this type of advertising is allowed as long as the advertisement contains a specified subset of the required disclosures in an offering document (prospectus) and instructions about how to obtain the full offering document and the annual and semi-annual reports.

In Hong Kong, the practice of using sales contests to motivate general sales of funds is allowed with little regulation or oversight. But sales contests to promote specific funds are not common practice.

Investors in Hong Kong can find mutual fund articles in their newspapers on an occasional basis. These articles rarely mention mutual fund fees when they are high, and sometimes promote long-term investing.

In Hong Kong, mutual funds and unit trust products are the most common fund-like vehicle for investors to own.

Most mutual funds in Hong Kong require investment minimums. The median investment minimum of both Hong Kong-domiciled funds and all funds available for sale is above US$2000.

It is estimated that between 50% and 80% of funds in Hong Kong are sold through a distributor with an open-architecture system. In Hong Kong investors only have fund supermarkets and banks and insurance companies as widely available distribution options. Neither of these two distribution channels dominates.

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India

Regulation & Taxation

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

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

- To define and maintain high professional and ethical standards in all areas of operation of mutual fund industry
- To recommend and promote best business practices and code of conduct to be followed by members and others engaged in the activities of mutual fund and asset management including agencies connected or involved in the field of capital markets and financial services.
- To interact with the Securities and Exchange Board of India (SEBI) and to represent to SEBI on all matters concerning the mutual fund industry.
- To represent to the Government, Reserve Bank of India and other bodies on all matters relating to the Mutual Fund Industry.
- To develop a cadre of well-trained Agent distributors and to implement a program of training and certification for all intermediaries and other engaged in the industry.
- To undertake a nationwide investor awareness program so as to promote proper understanding of the concept and working of mutual funds.
- To disseminate information on the mutual fund industry and to undertake studies and research directly and/or in association with other bodies.

Indian regulations are up-to-date, and the financial authorities have been proactive in recent years about keeping fund regulations current. Our local analysts have observed a marked improvement in Indian fund regulation in recent years. The regulators are adequately staffed and have even been pro-active 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 and independent party at least once a year. In India, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the custodian and mutual fund company can be related by minority ownership.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research related favors such as entertainment. The AMFI Code of Conduct

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requires that fund management companies act in the benefit of investors and requires that companies seek best execution when trading securities, but there are no required disclosures. While soft dollars are not a prohibited practice, firms are bound by the professional code of conduct to use these arrangements for research that directly benefits shareholders.

India does not allow funds domiciled in other countries to register for sale to Indian investors.

In India the Board of Directors is called the Board of Trustees, and two-thirds of trustees in India must be independent.

In India, funds must apply for permission to invest in securities issued in foreign countries. Individual funds can obtain permission to invest approximately USD$300M overseas.

In India superannuation funds are tax-preferred investment vehicles that allow for investors to save for retirement in amounts greater than the mandatory government retirement plan. These plans are typically linked to insurance contracts.

In India taxes on short-term capital gains are higher than those on long-term capital gains. Capital gains on equity fund investments held for less than one year are taxed at a rate between 10% and 19%. Equity investments held longer than one year are exempt from capital gains taxes. Fixed-income funds investors pay capital gains taxes on short-term investments at the same rate as their marginal income tax rate. Investors subject to long-term capital gains taxes can choose a 10% rate without indexation of the cost basis, or a 20% rate with indexation. Dividends from equity funds are tax free while fixed-income fund distributions are taxed at a rate typically between 20% and 29%. Investors are responsible for capital gains taxes on funds upon the sale or distribution of fund shares. Income and dividend taxes are withheld by the issuing entity therefore investors pay taxes annually on these items.

Fund management services in India are subject to a Value Added Tax.

Disclosure

In India, funds are required to publish annual reports separately from offering documents. The simplified prospectus is called the scheme information document. The typical example reviewed included 16 funds in a 24-page document which also included application paperwork. The funds' objectives and investment policies are presented clearly but the document has little information on the risks of investments. The condensed document includes TER, but has no information relating to trading costs. Both absolute and relative performance is included in the document along with the name of the portfolio manager. The tenure of the portfolio manager is not available and there is no information on fund holdings.

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In India, fund companies must publish both annual reports and semi-annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company and is published shortly after the fiscal year ends. A typical annual report reviewed included a managers' report, audited financial statements with an itemization of fund costs, and full portfolio holdings. In general, the management's discussion is required, and it generally contains an explanation of fund performance.

The regulation in India requires that all expenses be disclosed in percentage form in the prospectus and currency within the financial statements. These reports provide the total expense ratio for the last two fiscal years. The financial statements itemize the expenses such that an investor can sometimes understand what portion of fees pays for specific management and administrative expenses of the fund. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is not available. Fund expenses are in a somewhat uniform format so investors can generally compare funds to each other without too much difficulty.

The total explicit cost of trading securities is available within the financial statements.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings annually, and are found in the full-length annual report. In practice most funds in India publish full portfolio holdings on a monthly basis.

Portfolio manager information is required information in the scheme information document. Required information includes the name, age, qualification, and experience. Tenure information is sometimes included. Neither the manager's compensation structure, nor the manager's investment within the fund is provided to investors.

In India the AMFI website contains fund offering documents. It only hosts offering documents and annual reports for funds, and investors have to search further for additional fund literature.

Fees and Expenses

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

The median asset-weighted expense ratio of fixed-income funds in India is 0.63%.

The median asset-weighted expense ratio of equity funds in India is 2.01%.

The median asset-weighted expense ratio of money market funds in India is 0.61%.

In India front-loads charges have not been permitted since August 2009. Funds are still allowed to charge deferred loads. In the earlier regime, entry commissions were paid as fees to advisors or brokers by the fund

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company, these commissions are no longer acceptable. Between 25% and 49% of available-for-sale and domiciled funds are considered no-load funds.

In India investors do not have the ability to negotiate deferred sales loads with their financial advisors.

Funds in India are not permitted to charge performance fees.

Investors in India sometimes pay for advice in addition to loads and TERs.

Sales and Media

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are permitted in India, but are not a common practice. The AMFI code of conduct requires that funds seek best execution and act in the interest of share owners.

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

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

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

In India, insurance-linked products are the most common fund-like vehicle for investors to own. Our analysts believe this is due to the prohibition of front loads on funds and the power of distributors in the investment decision process.

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

It is estimated that over 80% of funds in India are sold through a distributor with an open-architecture system. In India, an investor has a full range of distribution options, including fund supermarkets, independent advisors, brokerage firms, direct to fund as well as banks and insurance companies. Independent advisors and fund direct sales channels tend to dominate fund distribution.

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Italy

Regulation & Taxation

In Italy primary regulatory responsibility belongs to the central bank, Banca d'Italia. The Bank of Italy is the authority over banks that provide investment services and any organization engaged in collective asset management. A separate public authority, Commissione Nazionale per le Societ'a e la Borsa (Consob), is 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 MiFID and UCITS III.

Banca d'Italia is the central bank of the Republic of Italy and part of the European System of Central Banks (ESCB) and the Euro system. It is a public-law institution and pursues aims of general interest in monetary and financial matters: price stability, the primary objective; the stability and efficiency of the financial system; and the 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 regulation authority includes: the provision of investment services and activities; the provision of portfolio management services; the drawing up and publication of prospectuses; storing and filing of regulated disclosures; determining the minimum financial resources of regulated market management companies and of central depositories; and the drawing up and publication of the semi-annual 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 President of the Council, after consideration by the Council itself, which shall remain in office seven years without the possibility of a second term. One of the members is also the President.

Italian regulations are somewhat up to date, but can be delayed and only partially address known problems. The regulators are staffed sufficiently for comprehensive enforcement actions, but there is little proactive oversight identifying improprieties. Most enforcement actions are public in Italy. The regulation and supervision of fund advertisements are perceived as effective and prevent misleading advertising. Consob strictly enforces rules around presentation of historical performance and what is required to be presented to individual investors.

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 may be affiliated companies.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research related favors such as entertainment. As a member of the European

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Union, 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. Italy allows soft-dollar arrangements that adhere to these restrictions, and requires that these be disclosed to investors.

Italy allows funds registered in compliance with the UCITS III directive to be marketed to Italian investors. Foreign-domiciled funds are common in Italy and investors are neutral in respect to the domicile of funds when choosing an investment.

Mutual funds in Italy are not required to have independent Boards of Directors, but the code of ethics of Assogestoni, the funds industry asssociation, includes board independence at the company level as a member requirement.

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

In Italy, there are specific tax incentives to encourage investors to save for retirement. Private pensions in Italy are insurance-linked products, and the choices are somewhat limited but other regulations are mainly in-line with other fund-like products.

In Italy taxes on short-term capital gains are the same as those on long-term capital gains. Capital gains on fund investments are taxed at a rate between 10% and 19%. Dividends and income are taxed at a rate between 10% and 19%. Investors are responsible for taxes annually on both realized and unrealized capital gains, income, and dividends. Funds are frequently required to withhold the expected tax liability of the end investor.

Fund management services in Italy are not subject to Value Added Tax.

Disclosure

In Italy, funds are required to publish annual reports separately from offering documents. Simplified prospectuses are also required, as is true in all EU countries. The typical example reviewed contained a single fund over four pages. A review of the translated document contained a very general strategy description and minimal risk explanations. The document did contain three years of TER history and historical returns, but lacked trading costs, top holdings and manager information. While the simplified prospectus was in plain language and contained cost and performance information, the lack of detail in the discussion of risk and strategy led us to determine that it did not meet the goals of simplified prospectuses.

In Italy, fund companies must publish both annual reports and semi-annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. A typical annual report reviewed included a managers' report, audited financial statements with an itemization of fund costs, full portfolio holdings, as well as other useful information on fund operations. The management's discussion is a required inclusion, but it does not typically tie fund performance to individual investment decisions in a manner useful for investors.

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The regulation in Italy requires that all expenses be disclosed in percentage form in the prospectus and currency within the financial statements. These reports provide the total expense ratio for the last three fiscal years. The expenses are presented in aggregate so it is difficult for an investor to understand what portion of fees pays for specific management and administrative expenses of the fund. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is required disclosure. Fund expenses are in a uniform format so investors can generally compare funds to each other without difficulty.

The explicit costs of trading securities are available within the financial statements.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings annually, and are found in the annual report.

Portfolio manager information is not required information in Italy, but fund companies are willing to disclose this information to professional analysts. No information on the compensation of individual managers or their investments alongside investors is available.

In Italy there is no centralized website containing fund literature.

Fees and Expenses

In Italy individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in Italy.

The median asset-weighted expense ratio of fixed-income funds available for sale in Italy is 1.05%.

The median asset-weighted expense ratio of fixed-income funds domiciled in Italy is 0.92%

The median asset-weighted expense ratio of equity funds available for sale in Italy is 1.97%.

The median asset-weighted expense ratio of equity funds domiciled in Italy is 2.10%

The median asset-weighted expense ratio of money market funds available for sale in Italy is 0.60%

The median asset-weighted expense ratio of money market funds domiciled in Italy is 0.60%

In Italy, between 50% and 75% of available-for-sale funds report charging front loads and between 50% and 75% of domiciled funds report charging a front load. Less than 25% of available-for-sale and between 25% and 50% of domiciled funds are no-load.

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In Italy, investors have the ability to negotiate loads with the sales agent.

Funds in Italy are permitted to charge asymmetrical performance fees, but fees may only be levied if the performance is both positive and above the stated benchmark. All relevant terms of performance fees are disclosed such than an investor can estimate the TER based upon fund performance.

Investors in Italy rarely pay for advice in addition to loads and TERs.

Sales and Media

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 are for the benefit of fund shareholders.

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

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.

Investors in Italy can find mutual fund articles in their newspapers on a weekly basis. These articles almost always mention mutual fund fees when they are high, but rarely promote long-term investing. Our local analyst finds that the media are very focused on fees and expenses.

In Italy, mutual funds are the most common fund-like vehicle for investors to own. Our analysts note that insurance-linked products are increasingly popular. We believe this is due to a combination of factors including bank distribution policies promoting guaranteed products and structured notes, and tax preferences for retirement vehicles in insurance wrappers.

Most mutual funds in Italy require investment minimums, but these are frequently waived for investors in automatic purchase plans. The median investment minimum of funds available for sale in Italy is between US$1,500 and US$2,000. The median investment minimum of Italian-domiciled funds is between US$500 and US$1000.

It is estimated that between 50% and 80% of funds in Italy are sold through a distributor with an open-architecture system. In Italy, an investor has limited distribution options, including fund supermarkets as well as banks and insurance companies. Banks and insurance companies dominate fund distribution.

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Japan

Regulation & Taxation

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

The mutual fund industry is also self-regulated by the Investment Trusts Association (ITA) with the mission "to protect investors and to contribute to the sound development of investment trusts and investment companies." Fund advertising and sales practices are self-regulated by the ITA and the Japan Securities Dealers Associations (JSDA).

In Japan locally domiciled funds are generally regulated by JSDA, but foreign-domiciled funds available for sale in Japan are supervised by SESC. This difference causes a lack in uniformity of some disclosure information.

Japanese regulations are up to date, and regulations are regularly updated to reflect changes in the investment industry. The regulators are staffed sufficiently for comprehensive enforcement actions, but there is little proactive oversight identifying improprieties. Most enforcement actions are public in Japan. The regulation and supervision of fund advertisements are perceived as effective and prevent misleading advertising.

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

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

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

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

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

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

In Japan, taxes on short-term capital gains are the same as those on long-term capital gains. Tax law in Japan does allow for certain capital losses to offset gains. Capital gains on fund investments are taxed at a rate between 10% and 19%. Dividends and income are taxed at a rate between 10% and 19%. Japanese fund investors pay capital gains taxes upon the sale of fund shares. Investors are responsible for taxes annually on dividend and income distributions received.

Fund management services in Japan are subject to Value Added Tax.

Disclosure

In Japan, funds are required to publish annual reports separately from offering documents. Simplified prospectuses are also required in Japan. The typical example reviewed was integrated as a portion of the full prospectus. It included only one fund but was 93 pages in length. At 93 pages in length this document has trouble being investor friendly. There is an explanation and breakdown of expenses at a per-share level, 10 years of performance history, and full portfolio included. The name and tenure of the portfolio manager are not included. Explicit trading costs are shown on per-share level. Overall, at 93 pages long for a single fund this is not terribly simple, and it fails to meet the goals of simplified prospectuses. New regulation on the simplified prospectus effective starting July 2010 should limit these documents to only 8-10 pages. This change once enacted should assist investors.

In Japan, fund companies must publish both annual reports and semi-annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company, and published within three months after the fiscal year end. A typical annual report reviewed included a managers' report, audited financial statements with a partial itemization of fund costs, full portfolio holdings, as well as other useful information on fund operations. The management's discussion is a required inclusion, but it does not typically tie fund performance to individual investment decisions in a manner useful for investors.

The regulation in Japan requires that all expenses be disclosed on a per-share basis in the prospectus and in aggregate within the financial statements. These reports provide the total expenses per share for the last fiscal year. Only certain expenses are broken out, so investors have an incomplete picture of what portion of fees pays for fund operations. Fund expenses are in a uniform format so investors can generally compare funds to each other without difficulty.

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In Japan, the explicit cost of trading securities is disclosed on a per-share basis.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings semi-annually, and are found in the semi-annual and annual reports.

Portfolio manager information is not required information in Japan. In the past this information was commonly available, but it led to poaching of management talent and fund companies halted disclosing this information. No information on the compensation of individual managers, or if they have made investments alongside investors is available.

Investors in Japan can access all fund literature on a government sponsored website http://info.edinet-fsa.go.jp/. However, this website is both difficult to navigate and to locate the desired information.

Fees and Expenses

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

The median asset-weighted expense ratio of fixed-income funds available for sale in Japan is estimated to be 1.10%.

The median asset-weighted expense ratio of fixed-income funds domiciled in Japan is estimated to be 0.95%.

The median asset-weighted expense ratio of equity funds available for sale in Japan is estimated to be 1.85%.

The median asset-weighted expense ratio of equity funds domiciled in Japan is estimated to be 1.50%.

The median asset-weighted expense ratio of money market funds available for sale in Japan is estimated to be 0.30%

The median asset-weighted expense ratio ofmoney market funds domiciled in Japan is estimated to be 0.17%

In Japan, between 50% and 75% of available-for-sale funds report charging front loads and between 50% and 75% of domiciled funds report charging a front load. In Japan between 25% and 50% of available-for-sale and domiciled funds are considered no-load funds. Most no-load funds are only available in fee-based advisor programs

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 and not the fund prospectus.

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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.

Investors in Japan rarely pay for advice in addition to loads and TERs.

Sales and Media

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are permitted in Japan but are not a known practice. Management companies state that they advocate best execution to avoid favorable treatment for distributors, but it is possible that such arrangements occasionally occur.

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

In Japan, fund-specific incentives for selling a fund are an accepted practice. Fund companies are known to pay for brokerage company advertisements in exchange for preferred placement by the brokerage. The practice of using sales contests to motivate the general sales of funds is an accepted practice, but is not common.

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

In Japan no one fund-like product is clearly preferred by investors. Beginning investors with high risk aversion and little experience tend to prefer variable annuities or other insurance products based upon safety and distributor's advice. Young short-term investors tend to prefer equities or foreign exchange trading, and are not interested in mutual funds. More experienced investors prefer open-ended funds and more recently have been shifting toward exchange-traded funds.

Most mutual funds in Japan require investment minimums and these are rarely waived for automatic investment plans. The median investment minimum of funds available for sale in Japan is less than US$500. The median investment minimum of Japan-domiciled funds is less than US$500.

It is estimated that over 80% of funds in Japan are sold through a distributor with an open-architecture system. In Japan, an investor has the most distribution options, including fund supermarkets, brokerage firms, banks and insurance companies, as well as directly from the fund companies. Independent financial advisors are not common in Japan. The banks and insurance company and brokerage sales channels dominate fund distribution.

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Netherlands

Regulation & Taxation

The Dutch 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."

The AFM is supported by De Nederlandsche Bank (DNB), which is responsible for prudential supervision of financial institutions.

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

All Dutch laws and regulations all comply with MiFID, the UCITS Directive, and all other EU directives on funds.

Dutch regulations are up to date, and regulations are regularly updated to reflect changes in the investment industry. The regulators are staffed sufficiently for comprehensive enforcement actions, but there is little pro-active oversight identifying improprieties. Few enforcement actions are public in the Netherlands. The regulation and supervision of fund advertisements are perceived as effective and prevent misleading advertising.

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

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

The Netherlands allows funds registered in compliance with the UCITS III directive to be marketed to Dutch investors. Foreign-domiciled funds are common in the Netherlands and investors are neutral to the domicile of the funds they purchase.

In the Netherlands, funds are required to have Boards of Directors. Boards of Directors in the Netherlands are two tiered with an executive board and supervisory board. The supervisory board must have three people that are independent.

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

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

In the Netherlands taxes on investments are structured as a wealth tax rather than capital-gains taxes, and there are no tax incentives to encourage long-term investments. The wealth tax is levied at a level of 1.2% of assets above €55,000. Through scenario analysis, it is estimated that this tax is equivalent to a dividend and capital gains tax rate between 10% and 19%. 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. The wealth tax structure is considered equivalent to paying taxes on dividends, realized, and unrealized capital gains annually. In the scenario analysis, it was assumed that the fund balance was in excess of the exemption.

Fund management services in the Netherlands are subject to Value Added Tax at a rate half that of other services. These taxes increase the cost of fund management.

Disclosure

In the Netherlands, funds are required to publish annual reports separately from offering documents. Simplified prospectuses are also required in the Netherlands. The typical document reviewed was light on risk disclosures but otherwise described the fund clearly. It was four pages in length and only included information on a single fund. The portfolio manager's name, photograph, and CV were included in the document and the discussion of fund performance tied to sector and country weightings, although not individual holdings. The expense breakdown included management fees, administration charges, and performance fees. The simplified prospectus included useful information such as 10-year returns and three- and five-year descriptive statistics. Additionally, portfolio sector, regional, and currency breakdowns were included alongside the top 10 holdings. The turnover ratio is provided as an estimate of trading costs. This meets the goals of simplified prospectuses.

In the Netherlands, fund companies must publish both annual reports and semi-annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. A typical annual report reviewed included a managers' report, audited financial statements with a partial itemization of fund costs, full portfolio holdings, as well as other useful information on fund operations. The management's discussion is a required inclusion, but it does not typically tie fund performance to individual investment decisions in a manner useful for investors.

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The regulation in the Netherlands requires that fund TERs be included in percentage in the prospectus and in currency in the annual report. These reports provide the total expense ratio for the last three fiscal years. Most expenses are itemized, so investors can understand what portion of fees pays for fund operations. Fund expenses are in a uniform format so investors can generally compare funds to each other without difficulty.

The cost of trading securities is disclosed as a portfolio turnover ratio.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings semi-annually, and are found in the semi-annual and annual reports.

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

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

Fees and Expenses

Dutch individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in the Netherlands. The TERs of equity and fixed-income funds domiciled in the Netherlands are lower than those offered from foreign fund sponsors.

The median asset-weighted expense ratio of fixed-income funds available for sale in the Netherlands is 1.02%.

The median asset-weighted expense ratio of fixed-income funds domiciled in the Netherlands is 0.70%.

The median asset-weighted expense ratio of equity funds available for sale in the Netherlands is 1.90%.

The median asset-weighted expense ratio of equity funds domiciled in the Netherlands is 1.09%.

The median asset-weighted expense ratio of money market funds available for sale in the Netherlands is 0.60%

The median asset-weighted expense ratio of money market funds domiciled in the Netherlands is 0.60%. Money funds are seldom used by individual investors in the Netherlands, as banks offer savings accounts with similar yields.

In the Netherlands, between 50% and 75% of available-for-sale funds report charging front loads and between 50% and 75% domiciled funds report charging a front load. In the Netherlands less than 25% of available-for-sale and between 25% and 50% of domiciled funds are considered no-load funds.

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In the Netherlands, investors have the ability to negotiate loads with the sales agent and platforms generally offer loads lower than the prospectus maximum.

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

Investors in the Netherlands rarely pay for advice in addition to loads and TERs.

Sales and Media

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

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In the Netherlands this type of advertising is not allowed, investors are supposed to receive a scheme information document prior to investment. However, there is only light enforcement of this requirement.

In the Netherlands, the practice of using sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds is allowed with little regulation or oversight beyond the suitability requirements in MiFID.

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

In the Netherlands mutual funds are the most common fund-like vehicle for investors to own. More self-directed and experienced investors are shifting to ETFs due to their low costs, but this is a very recent trend.

Mutual funds domiciled in the Netherlands rarely require investment minimums. The median investment minimum of funds available for sale in the Netherlands is over US$2000. The median investment minimum of the Netherlands-domiciled funds is less than US$500.

It is estimated that between 50% and 80% of funds in the Netherlands are sold through a distributor with an open-architecture system. Dutch investors have most distribution options widely available, including fund supermarkets, brokerage firms, banks and insurance companies, as well as directly from the fund companies. Banks and insurance companies dominate fund distribution.

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New Zealand

Regulation & Taxation

In New Zealand, the Securities Commission is the main regulator of investments, and its mission is "to strengthen investor confidence and foster capital investment in New Zealand by promoting the efficiency, the integrity, and cost effective regulation of our securities markets." The regulations governing New Zealand's mutual funds are the Unit Trusts Act, Superannuation Act, KiwiSaver Act, and Securities Act. Other applicable regulations are the Fair Trading Act for advertising of investment products and the Financial Reporting Act.

The Securities Commission describes its role as:

- to keep under review the law relating to bodies corporate, securities and unincorporated issuers of securities and to recommend changes to the Minister of Commerce
- to keep under review practices relating to securities and to comment on these
- to cooperate with overseas securities commissions
- to keep under review securities markets activities and to comment on these
- to advise the Minister of Commerce on conduct rules proposed by securities exchanges
- to promote public understanding of the law and practice of securities
- to provide administrative and support services to the Takeovers Panel
- to perform any other function conferred by law.

The investment industry is also self-regulated by the Investment Savings and Insurance Association (ISI). This organization represents the views of various fund managers and insurance companies.

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

New Zealand regulations are somewhat up to date, but can be delayed and only partially address known problems. The regulators are staffed insufficiently for comprehensive enforcement actions, and only the worst violations draw regulators attention. Most enforcement actions are public in New Zealand. The regulation and supervision of fund advertisements is effective and prevents misleading advertising.

While regulators in New Zealand have not fulfilled many investor expectations in years past, the Securities Commission and the Ministry of Economic Development have recently begun a much more activist approach. They are reviewing the uniformity of disclosure of fees, commission structures, advisor incentives, and other regulatory changes. In late May 2010, the Commerce Minister announced the establishment of a single regulator, the Financial Markets Authority (FMA). The FMA is being established ahead the first full review of the Securities Act in over 30 years. This survey reflects the current regulations and the aggregate history of enforcement, but continued enforcement efforts and regulatory changes will result in an improved grade in future surveys.

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

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research related favors such as entertainment. These are an accepted practice in New Zealand.

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

In New Zealand funds are not required to have Boards of Directors.

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

To encourage working individuals to voluntarily save for retirement over and above their Government Superannuation Fund, the New Zealand government introduced the KiwiSaver, a government-subsidized, defined-contribution retirement savings plan offered by private-sector providers. The government subsidy is in the form of a tax credit that is deposited directly into the investor's KiwiSaver account. In addition to subsidizing investment fees, the government is currently offering a one-off NZ$1,000 contribution when the scheme is set up and a matching contribution of NZ$20 per week to a maximum of NZ$1,040. Funds available for the Kiwi Saver are identical to those available in taxable accounts; the account carries the tax credit, not the fund.

In New Zealand the tax system for funds is quite complex, but offers a variety of tax incentives for investors. Prior to the introduction of Portfolio Investment Entity (PIE) funds in 2007, funds were taxed as corporations in the business of trading shares counting all capital gains as income. PIE funds hold approximately 85% of domestic fund assets, and since 2007 they are the typical investment for a New Zealand fund investor.

The small percentage investors in legacy Non-PIE funds pay income taxes on both income and capital gains. PIE funds face no capital gains taxes on Australian or New Zealand stocks, and dividends on Australian and New Zealand shares are taxed at the investors' Prescribed Investor Rate (PIR) of up to 28%. Foreign shares held in PIE funds are subject to a Fair Dividend Rate (FDR) tax. The FDR is presently 5% of the beginning value of the foreign holdings. Investors pay their PIR, on the FDR, whether or not the foreign holdings received any dividends, interest income, or capital gains. Investors in foreign-domiciled funds pay taxes on the greater of the FDR, or the total fund return over the tax year. While named the Fair Dividend Rate, scenario analysis reveals that the effective tax liability is most similar to a wealth tax on foreign holdings.

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Based upon the variety of taxes for various fund structures and our scenario analysis, New Zealand is scored in the following manner. Investors in New Zealand pay the same tax rate on short-term and long-term capital gains, and there is no tax incentive encouraging long-term investment. It is estimated that investors in New Zealand pay a maximum capital gains rate of between 10% and 19%, albeit only on foreign holdings. Fund investors in New Zealand pay a maximum rate on dividends of between 30% and 39%. Taxes through the FDR structure are considered equivalent to paying taxes on dividends, realized, and unrealized capital gains annually. In practice, PIE funds withhold taxes on behalf of investors at a PIR supplied by the investor annually.

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

Disclosure

In New Zealand, funds are required to publish annual reports separately from offering documents. Simplified prospectuses are also required in New Zealand. The investment statement serves as the simplified prospectus in New Zealand. The example contained useful educational information on investing, but the fund details are superficial and of limited use for an inquisitive investor. The document included three funds spread across 24 pages including a nine-page application form. While TER was included, there was no numerical example of fund expenses, no trading cost measure, no performance information, no manager information, and no portfolio details. Although the investment description within the investment statement reviewed was inadequate, it does meet the minimum goals for simplified prospectuses.

In New Zealand, fund companies must publish both annual reports and semi-annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. A typical annual report reviewed included audited financial statements and very little additional information. The management's discussion is a required inclusion, but it does not typically tie fund performance to individual investment decisions in a manner useful for investors.

Remarkably, mutual funds in New Zealand are not required to publish a full and complete disclosure of the portfolio holdings. In an otherwise sophisticated fund market, New Zealand's refusal to even approach global best practices on disclosure is surprising—and unacceptable. Worse, New Zealand-based funds rarely provide this information to investors voluntarily.

The regulation in New Zealand does not require that funds provide TERs. The Investment Savings and Insurance association (ISI) does recommend publishing TERs as a best practice, and these are sometimes available. Investors rarely can tell what portion of expenses pays for which fund services. Fees are presented in a somewhat uniform format, such that investors can compare the cost of funds.

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Funds in New Zealand are not required to include an example of the impact of fees, but many funds do provide this information. This may be due to the availability of Australian funds where a numerical example is a required disclosure.

The cost of trading securities is rarely available for funds in New Zealand.

Mutual funds are not required to publish any portfolio holding information.

Portfolio manager information is not required information in the New Zealand; professional analysts sometimes have access to this information. No information on the compensation of individual managers or their investments alongside investors is available.

New Zealand does not have a website with an electronic repository of fund documents.

Fees and Expenses

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. As there is no uniform fee presentation standard in New Zealand, it is very difficult to assess the total cost of investing in funds. The figures below represent a "best estimate" of the investment cost for New Zealand investors.

The median asset-weighted expense ratio of fixed-income funds available for sale in New Zealand is estimated at 0.90%.

The median asset-weighted expense ratio of fixed-income funds domiciled in New Zealand is estimated at 0.85%.

The median asset-weighted expense ratio of equity funds available for sale in New Zealand is estimated at 1.50%.

The median asset-weighted expense ratio of equity funds domiciled in New Zealand is estimated at 1.50%.

The median asset-weighted expense ratio of money market funds available for sale in the New Zealand is estimated at 0.65%

The median asset-weighted expense ratio of money market funds domiciled in New Zealand is estimated at 0.65%

In New Zealand, between 50% and 75% of available-for-sale funds report charging front loads, and between 50% and 75% of domiciled funds report charging a front load. In New Zealand between 25% and 50% of both available-for-sale and domiciled funds are considered no-load funds.

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In New Zealand, investors have the ability to negotiate loads with the sales agent.

In late April 2010, the ISI announced a plan to phase out commissions. This was directly spurred by a similar announcement in Australia, details are not yet available and this has not been included in this year's scoring.

Funds in the New Zealand are permitted to charge asymmetrical performance fees. All relevant terms of performance fees are disclosed. Performance fees have become more common in New Zealand in recent years.

Investors in New Zealand sometimes pay for advice in addition to loads and TERs.

Sales and Media

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.

"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.

In New Zealand, the practice of using sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds is allowed with little regulation or oversight.

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.

In the New Zealand mutual funds are the most common fund-like vehicle for investors to own.

Mutual funds in New Zealand typically require investment minimums but they are frequently waived with participation in an automatic investment plan. The median investment minimum of funds available for sale in New Zealand is between US$1000 and US$1500. The median investment minimum of New Zealand-domiciled funds is between US$1500 and US$2000.

It is estimated that between 50% and 80% of funds in New Zealand are sold through a distributor with an open-architecture system. 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.

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Norway

Regulation & Taxation

In Norway, Finanstilsynet is the Financial Supervisory Authority of Norway, which was renamed from Kredittilsynet in December of 2009. Finanstilsynet is an independent government agency responsible for the supervision of banks, finance companies, mortgage companies, insurance companies, pension funds, investment firms, securities fund management and market conduct in the securities market, stock exchanges and authorized market places, settlement centers and securities registers, estate agencies, debt collection agencies, external accountants, and auditors. The regulation governing Norway's mutual fund is Act No. 52 of 12 June 1982 on Securities Funds. Additionally as a member of the European Economic Area, Norway's laws conform to EU directives including UCITS III and MiFID.

The investment industry is also self-regulated by the Norwegian Mutual Fund Association (VFF).

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

Norwegian regulations are somewhat up to date, but can be delayed and only partially address known problems. The regulators are staffed sufficiently for comprehensive enforcement actions, but there is little proactive oversight identifying improprieties. Most enforcement actions are public in Norway. The regulation and supervision of fund advertisements are perceived as somewhat effective and only identify the worst violations.

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

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research related favors such as entertainment. As a member of the European Economic Area, Norway'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, and requires that these be disclosed to investors.

Norway allows funds registered in compliance with the UCITS III directive to be marketed to Norwegian investors. Foreign-domiciled funds are common in Norway, but investors still prefer locally domiciled funds.

In Norway funds are required to have Boards of Directors, and there is a minimum level of independence required.

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

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To encourage working individuals to voluntarily save for retirement over and above the public pension system, there are tax benefits. In 2006, the government introduced a supplemental defined contribution plan. Employers are required to make a contribution equal to 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 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.

In Norway there are tax incentives for holding investments for longer periods. Rather than being based upon the holding period to determine a capital-gains tax rate, investors in Norway deduct the compounded government risk-free rate of return from their investment returns. This results in lower taxable gains for long-term gains than the equivalent gain earned in a short-term trade. The tax rate on taxable gains is between 20% and 29%, but due to the reduction based on the risk-free rate, the long-term capital gains rate was scored as between 10% and 19%. The maximum tax rate on dividends and interest income is 28%. Fund investors in Norway are responsible for taxes on capital gains and dividends upon fund distributions or the sale of shares. Investors are responsible for taxes on interest income earned within fixed-income funds annually.

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. All new funds must issue simplified prospectuses, but legacy articles of association remain difficult as changing the document requires an expensive majority vote of shareholders. The simplified prospectus example reviewed was a concise two pages for a single fund. The information was quite high-level and did not elaborate on the funds' specific investment style or risks. The expense disclosure included a comprehensive management fee plus a performance component. The document contained performance history since the fund's inception, and the top 10 holdings of the portfolio. But there was no numerical example of fund expenses, no trading cost measure, no performance information, and no manager information within the simplified document. Although the investment description within the investment statement reviewed was superficial, the example satisfies the goals of a simplified prospectus.

In Norway, fund companies must publish both annual reports and semi-annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. Although not required, fund companies generally provide a useful discussion of fund performance within fund literature. A typical annual report reviewed included general market commentary for a line-up of funds, audited financial statements of the funds, a fund fact section with a full portfolio, and other useful fund governance information.

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The regulation in Norway does not require that funds provide historic TERs. Investors rarely can tell what portion of expenses pays for which fund services. Fees are not presented in a uniform format; investors must search to find comprehensive expense information.

Funds in Norway are not required to include an example of the impact of fees.

The cost of trading securities is rarely available for funds in Norway.

Mutual funds are required to publish full portfolio holdings information annually, 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. 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, in Norway the government publishes the tax information of all citizens including wealth, taxable income, and taxes paid on a government website.

Norway does not have an website with an electronic repository of fund documents.

Fees and Expenses

Norwegian individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in Norway. TERs of funds domiciled in Norway are lower than those offered from foreign advisors, this may indicate that more sophisticated funds are choosing to distribute across the continent rather than solely in the home jurisdiction.

The median asset-weighted expense ratio of fixed-income funds available for sale in Norway is 1.28%.

The median asset-weighted expense ratio of fixed-income funds domiciled in Norway is 0.50%.

The median asset-weighted expense ratio of equity funds available for sale in Norway is 1.98%.

The median asset-weighted expense ratio of equity funds domiciled in Norway is 1.54%.

The median asset-weighted expense ratio of money market funds available for sale in the Norway is 0.72%

The median asset-weighted expense ratio of money market funds domiciled in Norway is 0.43%

In Norway, between 50% and 75% of available-for-sale funds report charging front loads, and between 50% and

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75% of domiciled funds report charging a front load. In Norway less than 25% of funds available for sale are considered no-load, and between 25% and 50% of Norwegian-domiciled funds are no-load.

In Norway, stated loads are rarely negotiable with the sales agent. But it is common practice for distributors to offer break-points, reductions in loads based upon the size of the fund or platform investment.

Norway is one of two countries in this survey that require that any performance fees paid to fund advisors include a symmetrical reduction in fees for underperformance, also known as fulcrum fees. Fulcrum fees are better investment practices than asymmetrical performance fees. Unfortunately, in Norway the terms of fulcrum fees can be complex and disclosed poorly, such that investors can only somewhat estimate fees based upon current performance.

Investors in Norway rarely pay for advice in addition to loads and TERs.

Sales and Media

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

"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 scheme information document prior to investment. It is common practice for fund applications to require a signature acknowledging receipt of fund offering documents and the implications of investing in the fund.

In Norway, the practice of using sales contests to motivate general sales of funds is no longer allowed. Compensating advisors (either monetarily or through awards) for selling particular funds is permitted under strict regulation to protect investors. Our analysts in Norway express higher confidence in the effectiveness of Norway's application of MiFID than many other European fund analysts. Additionally, in May 2010, Finanstilsynet issued proposed rules stating that advisor payments tied to specific fund sales generates a conflict of interest. As these changes are not yet in effect they have not been included in this year's score, but these proposals when enacted will change the evaluation of sales contests.

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

In the Norway mutual funds are the most common fund-like vehicle for investors to own. Measures adopted to comply with MiFID, and the recent financial crisis, have reduced the public's appetite for structured products.

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Mutual funds in Norway typically require investment minimums but they are frequently waived with participation in an automatic investment plan. The median investment minimum of funds available for sale in Norway is above US$2000. The median investment minimum of Norwegian-domiciled funds is between US$1500 and US$2000.

It is estimated that less than 20% of funds in Norway are sold through a distributor with an open-architecture system. Recently, banks have begun offering more funds from external advisors. Norwegian investors have most distribution options widely available, including independent advisors, 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.

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Singapore

Regulation & Taxation

In Singapore, the Monetary Authority of Singapore (MAS) is the regulatory body responsible for supervision over money, banking, insurance, securities, and the financial sector in general. It is the central bank of Singapore. Its mission is "to promote sustained noninflationary economic growth, and a sound and progressive financial centre." Its basic functions include conducting "integrated supervision of financial services and financial stability surveillance" in addition to other responsibilities associated with a central bank. The Code on Collective Investment Schemes (CIS Code) is issued by the MAS pursuant to the Securities and Futures Act (SFA), and it sets out best practices on the management, operation, and marketing of funds.

In addition to the MAS, there is a trade-industry body called the Investment Management Association of Singapore (IMAS), which all licensed fund management entities in Singapore are required to join. The IMAS regularly issues voluntary codes and guidelines on global best practices to promote growth and development of the funds industry.

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

The regulations in Singapore are up to date and the regulator regularly publishes supplemental regulations to fill gaps in earlier regulations. In late April 2010, MAS began a review of fund management company regulation, and this is an example of the regulator's engagement. Regulators are staffed sufficiently for comprehensive enforcement actions, and the regulator actively investigates improprieties. Most enforcement actions are public in Singapore. The regulation and supervision of fund advertisements are perceived as effective. MAS has a team that approves sales literature and IMAS provides education on advertising requirements for its members.

All countries in this survey, including Singapore, require funds to be audited by and independent party at least once a year. In Singapore, fund assets are required to be kept by a custodian. In practice most funds use independent custodians, but a few exceptions occur where the custodian and the fund manager are separate business entities that belong to the same parent holding company. The IMAS Code of Conduct has regulations that try to prevent conflicts of interest.

In regard to soft-dollar practices, the CIS Code restricts the use and requires the disclosure of soft dollars received from each broker in the semi-annual and annual reports. A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. In the case of Singapore, the CIS Code restricts the use of these practices as follows:

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"The manager should not receive soft dollars in the management of the scheme unless the following requirements are met:

i) the soft dollars received can reasonably be expected to assist in the manager's provision of investment advice or related services to the scheme;
ii) transactions are executed on the best available terms, taking into account the market at the time for transactions of the kind and size concerned; and
iii) the manager does not enter into unnecessary trades in order to achieve a sufficient volume of transactions to qualify for soft dollars.

The receipt of goods and services such as travel, accommodation, and entertainment do not fall within the definition of "soft dollars" and is therefore prohibited."

Singapore allows foreign funds to register for sale in Singapore. Additionally funds registered in compliance with the UCITS III receive streamlined registration in Singapore. Foreign-domiciled funds are common in Singapore, and investors are fairly neutral of domicile when making an investment choice.

In Singapore funds are required to have Boards of Directors, and there is a minimum level of independence required.

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

To encourage working individuals to voluntarily save for retirement over and above their Central Provident Fund savings, the Singaporean government offers tax deferral for investments in a Supplementary Retirement Scheme. The CPF, a compulsory government-managed savings scheme, was set up in 1955. Monies in a CPF account can be used for housing, education and retirement, and other government authorized uses. CPF investments can include many investment choices, but there are additional regulations on CPF approved investments. CPF contribution rates are high, up to 20% of salary from the employee and 14.5% from the employer, subject to a cap.

In Singapore, individual investors, not in the business of trading securities, are exempt from capital gains taxes. Additionally, dividends earned within CPF funds are exempt from taxes. In addition to exemptions for CPF dividends, dividends from foreign companies, and a variety of other classes of companies and savings schemes are also exempt from taxes. Dividends that are not exempt face a 20% maximum marginal tax rate, payable upon distribution. Interest earned from approved banks and funds is also exempt from taxes. Mutual fund investors are generally exempt from all investment taxes in Singapore.

Fund management services in Singapore are subject to GST.

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Disclosure

In Singapore, offering documents are separate documents from shareholder reports. Funds in Singapore must issue fact sheets; these documents are similar in nature to simplified prospectuses. In October 2010, Singapore revised its disclosure regulation to require a product highlight sheet that should compare more directly to simplified prospectuses in other countries reviewed. While we commend Singapore for introducing this new regulation, as of the time of this report, product highlight sheets are not yet available. Therefore, the grade reflects the fund literature that is available to investors in the year prior to this report's publishing. The example fact sheet reviewed was a concise two pages for a single fund. The information was quite high-level and did not elaborate on the funds' specific investment style or risks. The expense disclosure included a comprehensive management fee plus a breakout of custody costs. The document contained performance history since the fund's inception, and the asset mix of the portfolio. But, there was no numerical example of fund expenses, no trading cost measure, no performance information, and no manager information within the simplified document. Although the investment description within the investment statement reviewed was superficial, the example does barely satisfy the goals of simplified prospectuses.

In Singapore, fund companies must publish both annual reports and semi-annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. Management's discussion of performance is required information, and our local analysts observe that fund companies generally provide a useful discussion that ties fund performance to fund positions. A typical annual report reviewed included market commentary tied to the fund's specific performance, clear and specific soft-dollar disclosure, independent trustee's report, audited financial statements with a detailed itemization of fees within the notes, and a full portfolio.

The regulation in Singapore does require that funds present the current-and-prior years' TER. Investors sometimes can tell what portion of fees paid by investors, pays for which fund services. Fees are presented in a uniform format, although investors must search to find itemized expense information.

Funds in Singapore often include an example of the impact of fees. Fact sheets are required to show historical net of sales charges, but a monetary example is not required.

In Singapore, the turnover ratio is provided as a proxy to estimate the cost of trading securities.

Mutual funds are required to publish full portfolio holdings information semi-annually.

Portfolio manager information is not required information in Singapore, and this information is infrequently available. No information on the compensation of individual managers or their investments alongside investors is available.

In Singapore, MAS hosts a website for Offers and Prospectuses Electronic Repository and Access, OPERA. As its name implies OPERA hosts prospectuses, and not all fund literature.

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Fees and Expenses

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, TERs of funds domiciled in Singapore are somewhat lower than those offered from foreign advisors. The cost differences are less prominent among equity funds.

The median asset-weighted expense ratio of fixed-income funds available for sale in Singapore is 1.41%.

The median asset-weighted expense ratio of fixed-income funds domiciled in Singapore is estimated at 0.73%.

The median asset-weighted expense ratio of equity funds available for sale in Singapore is 1.93%.

The median asset-weighted expense ratio of equity funds domiciled in Singapore is 1.80%.

The median asset-weighted expense ratio of money market funds available for sale in the Singapore is 0.75%.

The median asset-weighted expense ratio of money market funds domiciled in Singapore is 0.54%.

In Singapore, between 50% and 75% of available-for-sale funds report charging front loads and more than 75% of domiciled funds report charging a front load. In Singapore between 25% and 50% of funds available for sale are considered no-load, but less than 25% of Singaporean-domiciled funds are no-load.

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.

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

Investors in Singapore rarely pay for advice in addition to loads and TERs.

Sales and Media

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

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Singapore this type of advertising is not allowed, and investors are required to receive a fact sheet prior to investment.

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In Singapore, the practice of using sales contests to motivate general sales of funds and the practice of compensating advisors (either monetarily or through awards) for selling particular funds is allowed under strict regulation. The regulations are found under the fair dealing provisions of the financial advisors act.

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

In the Singapore funds and insurance-linked funds are the most common fund-like vehicles for investors to own.

Funds in Singapore typically require investment minimums but they are frequently waived with participation in an automatic investment plan. The median investment minimum of funds available for sale in Singapore is between US$1500 and US$2000. The median investment minimum of Singaporean-domiciled funds is between US$500 and US$1000.

It is estimated that over 80% of funds in Singapore are sold through a distributor with an open-architecture system. Singaporean investors have most distribution options widely available, including independent advisors, brokerage houses, fund supermarkets, and banks and insurance companies. Fund supermarkets along with bank and insurance company channels dominate fund sales.

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South Africa

Regulation & Taxation

In South Africa the Financial Services Board (FSB) is an independent institution established by statute to oversee the South African Non-Banking Financial Services Industry in the public interest. The supervisory authority of the FSB includes: collective investment schemes, financial services providers, insider trading, insurers, nominee companies, retirement funds, and friendly societies. The enforcement committee of the FSB is empowered to adjudicate alleged misconduct. The enforcement committee has the power to enforce unlimited penalties, compensation and cost orders, and its actions are enforceable as if the Supreme Court of South Africa has ruled. The FSB website has thorough, understandable descriptions of its duties and responsibilities. It provides easy access for investors to file complaints, find relevant legislation, and consumer education among its other duties.

The regulations that govern the fund industry are codified in the Collective Investment Schemes Control Act 45 of 2002 (CISCA). This act outlines permitted content for advertising, marketing materials, and subscription of funds in broad terms. Also included are the requirements of a fund's deed, the South African equivalent of a prospectus, and other required fund literature.

The Assocation for Savings and Investment South Africa (ASISA) is a self-regulatory body that works with the fund industry. ASISA has codes of practice and standards that its members must adhere to. These regulations are seen as more thorough and effective than those of CISCA, and the FSB has delegated certain enforcement of regulations on ASISA members to ASISA.

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

South African regulations are somewhat up to date, but can be delayed and only partially address known problems. The regulators are not adequately staffed and only the worst violations draw enforcement actions. Most enforcement actions are public in South Africa. The regulation and supervision of fund advertisements are perceived as effective.

All countries in this survey, including South Africa, require funds to be audited by and independent party at least once a year. In South Africa, fund assets are required to be kept by the trustee. The trustee performs the function of custody as well as other roles. Trustees are required to be independent companies without any affiliation.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research related favors such as entertainment. Soft-dollar arrangements are an accepted practice in South Africa, but funds with these arrangements must disclose them.

South Africa allows foreign funds to register for sale to its citizens. Foreign-domiciled funds are somewhat common in South Africa, but under exchange-control legislation investors are restricted in the amount of capital they may invest overseas. Funds are also subject to exchange-control legislation. For individual investors, locally

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domiciled funds that invest overseas do not count toward the personal exchange-control legislation limits. When exchange controls are not a factor, South African investors are neutral to fund domicile.

In South Africa, funds are required to have independent trustees, rather than Boards of Directors, that are responsible for ensuring that funds follow their founding documents.

In South Africa, funds are subject to exchange controls. Each fund company may invest a certain percentage of assets overseas (this is at the firm level and not the fund level).

There are tax incentives to save for retirement in South Africa. Three types of retirement funds qualify for tax incentives: pension funds, provident funds, and retirement annuities. Individuals may deduct up to 15% of their taxable income for contributions to retirement annuities. There are no taxes on retirement annuity assets. Retirement annuities must have guaranteed components and follow the Pension Fund Act rather than CISCA. Investment choices available in retirement annuities can be identical to those outside of the annuity wrapper, but the annuity component is required.

In South Africa, taxes on short-term capital gains are higher than those on long-term capital gains on shares held more than three years. In 2011, the first 17,500 Rand of capital gains are excluded from taxes. Only 25% of gains in excess of the annual exclusion are included in an individual's income taxes. The maximum marginal income tax rate is 40%. Both short-term and long-term capital gains are taxed at a rate estimated between 10% and 19%. Dividends on South African shares are paid prior to distribution, and citizens are responsible for paying taxes on foreign dividends and interest income at a maximum tax rate above 39%. The first 22,300 Rand in interest is exempt from taxes, but only 3,700 Rand in interest or dividends from foreign sources can count toward the exemption. Investors are responsible for capital-gains taxes on distributions received and upon the sale of fund shares. Fund investors are responsible for taxes on interest income annually.

Fund management services in South Africa are subject to a VAT.

Disclosure

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. The combination of a deed and any relevant sub-deeds is the closest publication to the annual prospectuses found in many other countries. Client application forms are mandated to contain information that is significantly similar to that found in a simplified prospectus. The example reviewed was a nine-page application form for a single fund choice. The document contained some information on fund risks, but less about specific fund investment strategies. TER information was included as was performance history for the last five years of the fund. The application did not contain information on trading costs, the name and tenure of the portfolio manager, nor a numerical example of expenses. While containing some useful information, this application form does not satisfy the goals of a simplified prospectus.

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In South Africa, fund companies must publish semi-annual and annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company. The report is published shortly after the fiscal year ends. Management's discussion of performance is required information. Our local analysts observe that fund companies typically provide a general discussion that does not tie to portfolio actions. A typical annual report reviewed included market commentary and abridged audited financial statements.

ASISA requires that funds present the 12-month TER on a quarterly basis. The presentation does not include prior periods for comparison by investors. Investors rarely can tell what portion of expenses pays for which fund services. Fees are presented in a somewhat uniform format, although investors frequently cannot find itemized expense information.

Funds in South Africa rarely include an example of the impact of fees.

In South Africa the cost of trading securities is rarely provided.

Mutual funds are required to disclose full portfolio holdings in the regulator quarterly, with partial information available to the public. Current fund investors can obtain this information upon request.

Portfolio manager information is not required information in South Africa, and this information is infrequently available. 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.

Investors in South Africa rarely pay for advice in addition to loads and TERs.

Fees and Expenses

South African individual investors have the choice to invest in locally domiciled funds as well as foreign funds that choose to register with FSB. Fund investors do face limits on the cumulative amounts they can invest in foreign securities.

The median asset-weighted expense ratio offixed-income funds available for sale in South Africa is 0.87%.

The median asset-weighted expense ratio offixed-income funds domiciled in South Africa is 0.87%.

The median asset-weighted expense ratio ofequity funds available for sale in South Africa is 1.96.

The median asset-weighted expense ratio ofequity funds domiciled in South Africa is 1.47%.

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The median asset-weighted expense ratio ofmoney market funds available for sale in the South Africa is 0.56%
The median asset-weighted expense ratio ofmoney market funds domiciled in South Africa is 0.56%

Between 25% and 50% of both funds available for sale and domiciled in South Africa report charging a front load. In South Africa between 50%and 75% of both available-for-sale and domiciled funds are considered no-load.

In South Africa, stated loads are generally negotiable with the sales agent.

Funds in South Africa 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.

Sales and Media

Directed brokerage arrangements are a common practice in South Africa.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In South Africa investors must receive application forms prior to making an investment.

In South Africa, 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 little regulation or oversight. These sales practices are currently being reviewed by regulators.

Investors in South Africa can find mutual fund articles in their newspapers on an occasional, less than weekly, basis. These articles sometimes mention mutual fund fees when they are high. Articles on fund investing frequently promote long-term investing.

In South Africa, insurance-linked products are preferred over open-end funds. South Africa's history of political and social instability has helped boost the demand for insurance.

Mutual funds in South Africa typically require investment minimums but the minimums are frequently waived with participation in an automatic investment plan. The median investment minimum of funds available for sale in South Africa is above US$2000. The median investment minimum of South African-domiciled funds is between US$500 and US$1000.

It is estimated that between 20% and 50% of funds in South Africa are sold through a distributor with an open-architecture system. South African investors have all surveyed distribution channels widely available, including direct from funds, independent advisors, brokerage houses, fund supermarkets, and banks and insurance companies. No distribution channel dominates fund sales.

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Spain

Regulation & 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." Additionally as a member of the European Union, Spain's laws conform to EU directives including UCITS III and MiFID.

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

Spanish regulations are up to date, but can be delayed and only partially address known problems. The regulators are staffed sufficiently for comprehensive enforcement actions, but there is little proactive oversight identifying improprieties. 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 effective.

All countries in this survey, including Spain, require funds to be audited by and independent party at least once a year. In Spain, fund assets are required to be kept by a custodian, but the custodian may be an affiliated company.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research related favors such as entertainment. As a member of the European Union, Spain'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. Spain allows soft-dollars arrangements that adhere to these restrictions, and requires that these be disclosed to investors.

Spain allows funds registered in compliance with the UCITS III directive to be marketed to Spanish investors. Foreign-domiciled funds are common in Spain, but investors still prefer locally domiciled funds.

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.

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 the Spain; supplementary pensions that are arranged between the employee and the employer; and individual pension plans. Individual pensions in Spain are frequently linked to insurance contracts, and must follow investment restrictions that do not apply to funds in general. Additionally, pension

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funds in Spain are regulated by the Direccion General Seguros y planes de Pensiones, a division of the Spanish Ministry of Finance and Taxes, rather than the CNMV. Individual pensions in Spain offer tax deferral, but the fund choices are limited and do not have the same disclosure requirements as fully taxable funds.

In Spain, taxes on short-term capital gains are the same as those on long-term capital gains. Capital gains, dividends, and interest are taxed at a maximum marginal rate of 21% beginning in 2010, up from 18% in 2009. Fund investors in Spain can defer capital gains taxes indefinitely if proceeds of sales and distributions are reinvested in a qualified fund. Fund investors are responsible for taxes on interest income and dividend distributions annually. Taxes on dividends are typically withheld prior to investors seeing any distribution.

In Spain most goods and services are subject to a VAT, but finance and insurance services in Spain are exempt.

Disclosure

In Spain, funds are required to publish annual reports separately from offering documents. Simplified prospectuses are also required in Spain. The typical document that we reviewed contained clear language on the specific investment risks undertaken by the fund. It was two pages in length and only included information on a single fund. The total expense ratio was presented as the sum of the management fee and custodial charges. The document did not contain an example of the impact of expenses, trading costs, fund performance information, the name and tenure of the portfolio manager, nor any holdings information. While light on a variety of portfolio details, the document clearly outlined the risks and objectives of the fund. This meets the goals of simplified prospectuses.

In Spain, fund companies must publish shareholder reports quarterly. The annual report must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. Management's discussion of performance is required information, and our local analysts observe that fund companies generally provide a general market commentary that does not tie to investment decisions or fund performance. A few boutique advisors 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.

The regulation in Spain requires that funds present TER for the trailing four quarters, the last three completed fiscal years and the TER from five years earlier in shareholder reports. Additionally financial statements are presented in a percentage format. TERs present custodial fees separately from management fees, but most specific fund services such as marketing and fund administration are aggregated within the TER. Therefore, investors can rarely tell which portion of fees pay for specific fund services. Fees are presented in a uniform format; although investors frequently cannot find itemized expense information. Fund expense information is available both in fund literature and on the CNMV website.

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Funds in Spain rarely include an example of the impact of fees.

In Spain the turnover ratio is provided as a proxy for cost of trading securities.

Mutual funds are required to disclose full portfolio holdings to the public quarterly.

Portfolio manager information is not required information in Spain, and this information is infrequently available. No information on the compensation of individual managers or their investments alongside investors is available.

In Spain the CNMV has a website with an electronic repository of fund documents and TER information, but this information does not include all fund publications and is often substantially delayed. The CNMV has actively improved the website. Over the past year simplified prospectuses have been included, which were previously not available on the website.

Fees and Expenses

Spanish individual investors have the choice to invest in locally domiciled funds as well as UCITS III funds with distribution operations in Spain. The TERs of equity and fixed-income funds domiciled in Spain are similar to those offered by foreign fund sponsors.

The median asset-weighted expense ratio of fixed-income funds available for sale in Spain is 1.13%.

The median asset-weighted expense ratio of fixed-income funds domiciled in Spain is 1.14%.

The median asset-weighted expense ratio of equity funds available for sale in Spain is 1.93%.

The median asset-weighted expense ratio of equity funds domiciled in Spain is 2.01%.

The median asset-weighted expense ratio of money market funds available for sale in the Spain is 0.20%

The median asset-weighted expense ratio of money market funds domiciled in Spain is 0.96%

Between 25% and 50% of funds available for sale in Spain report charging a front load, but less than 25% of locally domiciled funds report front loads. Between 25% and 50% of funds available for sale in Spain are no-load, but more than 75% of Spanish-domiciled funds are no-load.

In Spain, stated loads are rarely negotiable with the sales agent. But it is common practice for distributors to offer reductions in loads based upon the size of the fund or platform investment. Distributors frequently have more flexibility negotiating the loads of foreign-domiciled funds than of Spanish-domiciled funds.

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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 are clearly stated so an investor reviewing a fund's performance can estimate costs for the current year. 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.

Investors in Spain rarely pay for advice in addition to loads and TERs.

Sales and Media

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

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is prohibited in Spain, but it is unclear how frequently this is enforced.

In Spain, 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 little regulation or oversight.

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.

In Spain, open-end funds are preferred by investors for non-retirement investments. Our analysts believe that private pensions may be more commonly owned, but open-end funds attract more investment dollars.

Mutual funds domiciled in Spain rarely require investment minimums. The median investment minimum of funds available for sale in Spain is between US$500 and US$1000. The median investment minimum of Spanish-domiciled funds is less than US$500.

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. Only two fund sales channels are widely available for Spanish investors: banks and insurance companies and fund supermarkets. The bank and insurance company channel dominates fund sales.

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Sweden

Regulation & Taxation

In Sweden, the regulatory body responsible for laws governing the investment industry, including fund advertising and sales practices, is Finansinspektionen. Per the Finansinspektionen website, "The Swedish Financial Supervisory Authority, Finansinspektionen, is a public authority. Our role is to promote stability and efficiency in the financial system as well as to ensure an effective consumer protection. We authorize, supervise and monitor all companies operating in Swedish financial markets. Finansinspektionen is accountable to the Ministry of Finance." Additionally as a member of the European Union, Sweden's laws conform to EU directives including UCITS III and MiFID.

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

Swedish regulations are up to date, but can be delayed and only partially address known problems. The regulators are not adequately staffed and only gross improprieties draw the attention of regulators. It is common for regulators to be junior and underpaid relative to their private-sector peers. Most enforcement actions are public in Sweden. The regulation and supervision of fund advertisements are perceived as somewhat effective and only identify the worst violations.

All countries in this survey, including Sweden, require funds to be audited by and independent party at least once a year. In Sweden, fund assets are required to be kept by a custodian, but the custodian may be an affiliated company.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research related favors such as entertainment. As a member of the European Union, Sweden'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. Sweden allows soft-dollars arrangements that adhere to these restrictions, and requires that these be disclosed to investors.

Sweden's allows funds registered in compliance with the UCITS III directive to be marketed to Swedish investors. Foreign-domiciled funds are common in Sweden and investors are neutral to domicile when choosing funds.

In Sweden funds are not required to have Boards of Directors.

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

Sweden has a pension system to encourage individuals to invest in funds as a way to provide their own wealth in retirement. Since 1995, individuals in Sweden are required to contribute 2.5% of their earnings into a publicly managed defined contribution plans known as Premiepension (PPM), which is managed by a government agency.

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In January 2010, PPM became part of a new agency, Pensionsmydigheten. Additionally, Swedes can make additional tax-deferred investments into individual pension savings (IPS) accounts or individual unit-linked pension insurance. Individuals self direct IPS accounts and can choose to self direct PPM accounts, although a government default investment is available for those who do not choose to self direct the PPM savings. Public pensions in Sweden, including PPM and IPS, are supervised by the Pensionsmydighenten. The fund choices available within individual insurance wrappers, IPS, and PPM savings are nearly identical to taxable investments, but shareholders have restricted rights compared to taxable investors. Most individual insurance wrappers have a limited choice of funds.

In Sweden, taxes on short-term capital gains are the same as those on long-term capital gains. Capital gains, dividends, and interest are taxed at a maximum marginal rate of 30%. Fund investors are responsible for taxes on capital gains upon the sale of fund shares, and are responsible for taxes on corporate dividends only if the fund distributes, which is not required.

In Sweden most goods and services are subject to a VAT, but it is common for funds to set up legal structures that avoid these taxes on fund management.

Disclosure

In Sweden, funds are required to publish annual reports separately from offering documents. Simplified prospectuses are also required in Sweden. The typical document that we reviewed contained clear language on the specific investment risks undertaken by the fund. It was two pages in length and only included information on a single fund. The document contained the fund's TER, total commissions paid, and a 10-year performance table. The document did not contain an example of the impact of expenses, the name and tenure of the portfolio manager, nor any holdings information. While light on a variety of portfolio details, the document clearly outlined the risks and objectives of the fund. This meets the goals of simplified prospectuses.

In Sweden, fund companies must publish shareholder reports semi-annually. The financial statements must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. Management's discussion of performance is required information, and our local analysts observe that fund companies generally provide an informative discussion that ties returns to portfolio actions. A typical annual report reviewed included transaction costs, total expenses, fund risks and objectives, an abbreviated financial statement, full portfolio holdings, and a discussion of fund performance.

In addition to pan-European regulations that require publishing the current- and prior-year's TERs, Sweden also requires that funds publish total-cost ratios. Total-cost ratios are included in individual account statements in addition to fund literature. Total-cost ratios include all items in TERs plus the transaction costs associated with trading securities in the fund. Investors sometimes can tell what portion of fees, paid by investors, pays for which fund services, but it is common practice for all management and operating expenses other than trading to

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be included in the management fee. Fees are presented in a uniform format, such that investors can easily compare the costs of two funds.

Sweden is one of five countries in this survey that require an example of the impact of fees.

In Sweden, funds are required to publish the explicit costs of trading securities.

Mutual funds are required to disclose full portfolio holdings to the public quarterly.

Funds domiciled in Sweden are required to provide the name of the portfolio manager, but the manager's tenure is only sometimes included. No information on the compensation of individual managers or their investments alongside investors is available. Although the compensation of managers is not directly available, in Sweden the government publishes the tax information of all citizens including wealth, taxable income, and taxes paid on a government website.

Finansinspektionen has a website with an electronic repository, but this website only currently contains funds' quarterly portfolio holdings disclosures.

Fees and Expenses

Swedish individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in Sweden. The TERs of funds domiciled in Sweden are moderately lower than those offered by foreign fund sponsors.

The median asset-weighted expense ratio of fixed-income funds available for sale in Sweden is 1.17%.

The median asset-weighted expense ratio of fixed-income funds domiciled in Sweden is 0.70%.

The median asset-weighted expense ratio of equity funds available for sale in Sweden is 1.90%.

The median asset-weighted expense ratio of equity funds domiciled in Sweden is 1.42%.

The median asset-weighted expense ratio of money market funds available for sale in the Sweden is 0.65%

The median asset-weighted expense ratio of money market funds domiciled in Sweden is 0.50%

More than 75% of funds available for sale in Sweden charge a front load, but less than 25% of locally domiciled funds report front loads. Less than 25% of funds available for sale in Sweden are considered no-load, but more than 75% of Swedish-domiciled funds are considered no-load. These differences show that the number of foreign-domiciled funds available in Sweden overwhelms the number of locally domiciled funds.

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In Sweden, stated loads are negotiable with the sales agent.

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.

Investors in Sweden rarely pay for advice in addition to loads and TERs.

Sales and Media

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

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is prohibited in Sweden, but it is unclear how frequently this is enforced.

In Sweden, 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 little regulation or oversight.

Investors in Sweden can occasionally find mutual fund articles in their newspapers. These articles rarely mention mutual fund fees when they are high. Articles on fund investing sometimes promote long-term investing.

In Sweden insurance-linked products are the most common fund-like product for investors to own. Private pensions generally fall into this category as many of them have guaranteed benefits; there are other insurance products that also offer tax benefits which helps maintain the popularity of insurance-linked funds.

Mutual funds in domiciled in Sweden rarely require investment minimums. The median investment minimum of funds available for sale in Sweden is above US$2000, but the median investment minimum of Swedish-domiciled funds is less than US$500.

It is estimated that between 20% and 50% 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. Swedish investors have three fund sales channels widely available, banks and insurance companies, traditional brokerage houses, and fund supermarkets. The bank and insurance company channel dominates fund sales.

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Switzerland

Regulation & Taxation

The supervisory authority on investment funds in Switzerland is the Swiss Financial Market Supervisory Authority (FINMA). Established in 2009, FINMA combines three previous agencies; the Federal office of Private Insurance, the Swiss Federal Banking Commission, and the Anti-Money Laundering Control Authority. The laws that set the regulatory guidelines of funds are called the Collective Investment Schemes Act (CISA), the 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 and government-authorized practice in Switzerland.

FINMA is also the agency responsible for the regulation of fund advertising and fund sales practices.

Swiss regulations are up to date, but can be delayed and only partially address known problems. The regulators are staffed sufficiently for comprehensive enforcement actions, but there is little proactive oversight identifying improprieties. Most enforcement actions are public in Switzerland, as many actions can be queried in multiple languages on the FINMA website. The regulation and supervision of fund advertisements are somewhat effective and only identify the worst violations.

All countries in this survey, including Switzerland, require funds to be audited by and independent party at least once a year. In Switzerland, fund assets are required to be kept by a custodian. The custodian may be an affiliated company, but the executive board of the fund and the custodian must not be the same individuals.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research related favors such as entertainment. Swiss regulations and self-regulations do not ban soft-dollar arrangements, but they do require disclosure. Additionally the SFA code of conduct state the following in regards to soft dollars:

"Fund management companies and SICAVs must ensure that fee-splitting agreements as well as soft commissions and the services remunerated in this fashion accrue directly or indirectly to the fund (e.g. financial analysis, market and price information systems). Fund management companies and SICAVs are thus obliged to:

- define a clear policy regarding the use of soft commissions on stock exchange transactions conducted for the fund's account, and to set this policy down in writing;
- draw up appropriate written regulations with the asset managers entrusted with the management of the fund's assets and to monitor compliance with these regulations."

Switzerland allows foreign funds to register for sale in Switzerland. Foreign-domiciled funds are common in Switzerland, and investors are neutral of domicile when making an investment choice.

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In Switzerland, funds structured as corporations are required to have a Board of Directors, but there is no requirement of independence.

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

In Switzerland, the government has a pension system to encourage individuals to invest in funds as a way to provide their own wealth in retirement. There is a mandatory cash balance plan with guaranteed rates of return and payout ratios that is considered a cash balance plan. Additionally, Swiss can make additional tax-deferred contributions into voluntary contributions into personal pension plans. Personal pension plans are available through Swiss insurance companies and authorized banking foundations. Up to 20% of earned income can be deposited into personal pension plans with tax deferrals until withdrawal. The regulation of the funds available in retirement plans is identical to taxable investments in Switzerland.

In Switzerland, there are no individual taxes on capital gains. Dividends and interest are taxed at a maximum marginal rate of between 30% and 39%. Fund investors are responsible for taxes on distributed income dividends and income annually. Companies issuing dividends in Switzerland are required to withhold taxes.

In Switzerland most goods and services are subject to a VAT. In most cases collective investment schemes regulated under CISA are exempt, but certain services unrelated to management, distribution of shares, or services provided by a firm not regulated by CISA remain subject to VAT.

Disclosure

In Switzerland, funds are required to publish annual reports separately from offering documents. Simplified prospectuses are also required in Switzerland. The typical document reviewed contained clear language on the specific investment risks undertaken by the fund. It was six pages in length and only included information on a single fund. The document contained the fund's TER, turnover ratio, and a 10-year performance table. The document did not contain an example of the impact of expenses, the name and tenure of the portfolio manager, nor any holdings information. While light on a variety of portfolio details, the document clearly outlined the risks and objectives of the fund. This meets the goals of simplified prospectuses.

In Switzerland, fund companies must publish shareholder reports semi-annually. The financial statements must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. Management's discussion of performance is not required information, although it is sometimes provided. A typical annual report reviewed included a very general fund commentary, top sectors, comparative financial statements, a turnover ratio, TER, and other useful information.

Switzerland requires that funds publish the TER for the most recent fiscal year without any other historic information. Investors sometimes can tell what portion of investor-paid fees pays for which fund services, but it is

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common practice for all management and operating expenses to be included in the management fee. Fees are presented in a uniform format; such that investors can easily compare the costs of two funds.

Switzerland does not require funds to include an example of the impact of fees.

In Switzerland, funds are required to publish the portfolio turnover ratio as a proxy for trading expenses.

Swiss mutual funds are required to disclose full portfolio holdings to the public semi-annually.

Funds domiciled in Switzerland sometimes provide the names and tenure of the portfolio manager, but this is not required information. No information on the compensation of individual managers or their investments alongside investors is typically available.

In Switzerland, a joint venture between the SFA and SIX Swiss Exchange hosts a searchable website containing all fund literature and performance information of funds authorized for sale in Switzerland. The website is in German, French, and English, but fund literature is only in the languages provided by the fund.

Fees and Expenses

Swiss individual investors have the choice to invest in locally domiciled funds as well as foreign funds that register to distribute in Switzerland. The TERs of funds domiciled in Switzerland are moderately lower than those offered by foreign fund sponsors.

The median asset-weighted expense ratio of fixed-income funds available for sale in Switzerland is 0.96%.

The median asset-weighted expense ratio of fixed-income funds domiciled in Switzerland is 0.36%.

The median asset-weighted expense ratio of equity funds available for sale in Switzerland is 1.88%.

The median asset-weighted expense ratio of equity funds domiciled in Switzerland is 1.09%.

The median asset-weighted expense ratio of money market funds available for sale in the is 0.61%

The median asset-weighted expense ratio of money market funds domiciled in Switzerland is 0.21%

Between 50% and 75% of funds available for sale in Switzerland report charging a front load, and over 75% of locally domiciled funds report front loads. Less than 25% of funds domiciled and available for sale in Switzerland are considered no-load.

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In Switzerland, stated loads are negotiable with the sales agent.

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.

Investors in Switzerland rarely pay for advice in addition to loads and TERs.

Sales and Media

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.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is prohibited in Switzerland, but it is unclear how frequently this is enforced.

In Switzerland, 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 little regulation or oversight.

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

In Switzerland open-end mutual funds are the most popular fund-like product for investors to own.

Mutual funds in Switzerland generally require investment minimums, but these are frequently waived for automatic investment plans. The median investment minimum of funds available for sale in Switzerland is above US$2000, but the median investment minimum of Swiss-domiciled funds is less than US$500.

It is estimated that between 50% and 80% of funds in Switzerland are sold through a distributor with an open-architecture system. While a majority of funds are sold through open architecture, most distributors do not focus on selling funds from other providers. Swiss investors have all sales channels widely available including: fund supermarkets, traditional brokerage, independent advisors, direct from the fund, and banks and insurance companies. The bank and insurance company sales channel dominates fund sales in Switzerland.

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Taiwan

Regulation & Taxation

In Taiwan, the Securities and Futures Bureau (SFB) of the Financial Supervisory Commission (FSC) is the regulatory body responsible for supervision of securities and futures sectors. It also regulates fund advertising and sales practices. The mission of the FSC is to "maintain financial stability, accelerate internationalization and deregulation, facilitate healthy investment environment and increase market confidence, educate and protect investors." The laws and regulations governing mutual funds are:

- Securities and Exchange Act
- Securities Investment Trust and Consulting Act
- Regulations Governing Securities Investment Trust Funds
- Regulations Governing Offshore Funds
- Regulations Governing Information to be Published in Prospectuses by Securities Investment Trust Enterprises Offering Securities Investment Trust Funds

The mutual fund industry is also self-regulated by the Securities Investment Trust & Consulting Association (SITCA). The SITCA proposes regulatory framework to the SFB. The SITCA, the Taiwan Depository and Clearing Corporation, and the Chinese National Futures Association together maintain an electronic database called "Fund Clear." Fund Clear is a central database containing public records of authorized offshore securities investment trusts, futures trusts, and offshore mutual funds. An individual with an Internet connection can go to Fund Clear to view a fund's abridged prospectus, full prospectus, and current and historical annual reports. For onshore funds, SITCA's website discloses a fund's transactions report, turnover ratio, as well as top five holdings on a monthly basis and full holdings on a quarterly basis. In addition, the Market Observation Post System (MOPS) by Taiwan Stock Exchange serves as a platform where fund companies file full and simplified versions of annual and quarterly reports.

Taiwanese regulations are up to date, but can be delayed and only partially address known problems. The regulators are staffed sufficiently for comprehensive enforcement actions, and the regulator is perceived as actively investigates improprieties. Most enforcement actions are public in Taiwan. The regulation and supervision of fund advertisements are somewhat effective and only identify the worst violations.

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

Soft-dollar arrangements, in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment, are uncommon and discouraged in Taiwan. The Self-Regulatory Code of SITCA stipulates that kickbacks of commission charges and other interests from security brokers cannot be accepted. Most funds are members of SITCA

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Taiwan allows foreign funds to register for sale in the country. The registration process for foreign funds is straightforward. Foreign-domiciled funds are common in Taiwan, and investors are neutral of domicile when making an investment choice.

In Taiwan funds are not required to have Boards of Directors.

In Taiwan, funds are prohibited from investing more than 10% of assets in A-share stocks listed in the People's Republic of China, but funds are free to invest in securities of other countries.

To encourage individuals to invest toward retirement, the Taiwanese government introduced the Labor Pension Fund. The only tax-deferred investment available for retirement savings is the government plan, the Labor Pension Fund, described as follows:

"The medium-and-long-term goal of the Fund is to have the rate of return of the Fund on a five-year moving average be higher than the legally guaranteed rate of return plus the annual increase of the consumer price index during the same period.

In order to achieve the above target return, the Fund will operate on its own and through investment mandates. In addition, a medium-and-long-term investment strategy with both active and passive management is also adopted to ensure the security of the Fund and to seek the maximum investment return within the risk tolerance level of the Fund."

In Taiwan, there are no individual taxes on capital gains within domestically domiciled funds; capital gains from foreign-domiciled funds are only taxed if non-employment capital gains and income exceed a threshold. Dividends and interest are included as income and taxed at a maximum marginal rate of 40%. Fund investors are responsible for taxes on dividends and interest earned within the fund annually.

Fund management services in Taiwan are subject to a VAT.

Disclosure

In Taiwan, funds are required to publish annual reports separately from offering documents. Simplified prospectuses are also required in Taiwan. The typical document reviewed contained all possible investment risks, not risks specific to the fund. The description of operations is thorough and formal, but with little insight into fund management. It was eight pages in length and only included information on a single fund. The document contained the fund's load schedule, the custody fee and management fee, a performance table on a cumulative basis since inception, a portfolio summary, and the name of the portfolio manager. The TER was not available but could be easily calculated from the itemized fees. The document did not contain an example of the impact of expenses, the tenure of the portfolio manager, nor a trading cost measure. While this document is simplified as compared to a full prospectus, it fails to meet the goals of a simplified prospectus.

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In Taiwan, fund companies must publish shareholder reports annually. The financial statements must be audited by an auditor that is not associated with the asset-management company and published shortly after the fiscal year ends. Management's discussion of performance is required information, but it is typically general and does not tie portfolio actions to fund performance. A typical annual report reviewed included a general fund commentary, top sectors, comparative financial statements, a brokerage expenses, management fee, trading costs, and other useful information. In the past, funds were required to provide quarterly shareholder reports, but this was rescinded in 2009. This reduction in disclosure is disheartening.

Taiwan requires that funds publish the management fee and trading costs for the most recent and prior fiscal years. Prior-year information is available on the government website and in the annual report. The management fees and trading costs are updated on SITCA's website monthly. Investors cannot typically tell what portion of fees pays for which fund services, and it is common practice for all management and most operating expenses to be included in the management fee. Fees are presented in a uniform format on the government website, such that investors can easily compare the costs of two funds.

Taiwan does not require funds to include an example of the impact of fees.

In Taiwan, total explicit transaction costs are available within financial statements.

Taiwanese mutual funds are required to disclose full portfolio holdings to the public quarterly.

Funds domiciled in Taiwan are required to provide the name of the portfolio manager, and it is common practice for funds provide the tenure although it is not required. No information on the compensation of individual managers or their investments alongside investors is available.

In Taiwan there is a centralized website with current and complete fund literature accessible by individual investors.

Fees and Expenses

Taiwanese individual investors have the choice to invest in locally domiciled funds as well as foreign funds that register to distribute in Taiwan. The TERs of funds domiciled in Taiwan are moderately lower than those offered by foreign fund sponsors.

The median asset-weighted expense ratio of fixed-income funds available for sale in Taiwan is 1.15%.

The median asset-weighted expense ratio of fixed-income funds domiciled in Taiwan is 0.34%.

The median asset-weighted expense ratio of equity funds available for sale in Taiwan is 1.94%.

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The median asset-weighted expense ratio of equity funds domiciled in Taiwan is 1.76%.

The median asset-weighted expense ratio of money market funds available for sale in Taiwan is 0.65%

The median asset-weighted expense ratio of money market funds domiciled in Taiwan is 0.56%

Between 50% and 75% of funds available for sale in Taiwan report charging a front load, and over 75% of locally domiciled funds report front loads. Less than 25% of funds domiciled and available for sale in Taiwan are considered no-load.

In Taiwan, stated loads are negotiable with the sales agent.

Funds domiciled in Taiwan with a government classification as a futures fund and foreign-domiciled funds in Taiwan are permitted to charge management fees with an asymmetrical performance component without an equal reduction in fees for underperformance. Terms of performance fees are sometimes difficult and investors may not be able to estimate the TER based upon current performance.

Investors in Taiwan rarely pay for advice in addition to loads and TERs.

Sales and Media

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are discouraged and uncommon in Taiwan. The Self-Regulatory Code of SITCA stipulates that members have written agreements stating that kickbacks of commission charges and other interests from security brokers cannot be accepted.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is prohibited in Taiwan, but it is unclear how frequently this is enforced.

In Taiwan, the practice of using sales contests to motivate general sales of funds and the practice of compensating advisors (either monetarily or through awards) for selling particular funds is allowed with little regulation or oversight.

Investors in Taiwan can find mutual fund articles in their newspapers on a daily basis. These articles rarely mention mutual fund fees when they are high, but sometimes promote long-term investing.

In Taiwan open-end mutual funds are the most popular fund-like product for investors to own. Although, our analysts find that ETFs are quickly growing in popularity.

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Mutual funds in Taiwan generally have strict investment minimums. The median investment minimum of funds available for sale in Taiwan is between US$1500 and US$2000, but the median investment minimum of Taiwanese-domiciled funds is less than US$500.

It is estimated that over 80% of funds in Taiwan are sold through a distributor with an open-architecture system. There are many fund supermarkets with little advice and either fully open-architecture or broad-guided architecture. Taiwanese investors have most sales channels widely available including: fund supermarkets, traditional brokerage, direct from the fund, and banks and insurance companies. The funds supermarkets along with bank and insurance company sales channels dominate fund sales in Taiwan.

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Thailand

Regulation & Taxation

In Thailand, the Securities and Exchanges Commission (SEC) is the regulatory body responsible for supervision of securities and futures sectors. It also regulates fund advertising and sales practices. The securities industry is governed by The SEC Act B.E. 2535, enacted in 1992. 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:

- To serve as the center of companies licensed to operate investment management business
- To foster the development of and provide protection for investment management business.
- To promote and improve professional standards of investment management business in the interests of the members and the general public.
- To promote saving culture among the public to enhance financial stability of the country as a whole.
- To cooperate with government agencies and/or organizations and/or agencies relevant to or in charge of controlling and/or monitoring investment management business on regulatory initiatives for not only investment management business but also all other types of securities businesses.
- To cooperate with the Stock Exchange of Thailand (SET), futures markets, or trading centers of securities or any other assets, listed companies, authorized companies, any agencies or institutions for the development of not only investment management business but also all other types of securities businesses.
- To facilitate cooperation among the member companies in solving problems associated with investment management business, and compromise of dispute related to investment management business among its members or between its members and the third parties.
- To set out rules, regulations or code of ethics for the member companies to comply, and to ensure their compliance with the rules, regulations or code of ethics for smooth operations of investment manage ment companies.
- To provide support for research and study, and dissemination of academic information and news, and publicize information about 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.

Thai regulations are somewhat up to date, but can be delayed and only partially address known problems. The regulators are staffed sufficiently for comprehensive enforcement actions, but there is little proactive oversight identifying improprieties. Some enforcement actions are public in Thailand. The regulation and supervision of fund advertisements are perceived as somewhat effective and only identify the worst violations. Our local analysts do observe that advertising standards are being actively updated.

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All countries in this survey, including Thailand, require funds to be audited by and independent party at least once a year. In Thailand, fund asset custody is the responsibility of the mutual fund supervisor. The law requires that the mutual fund supervisor be independent of the fund manager, and the two organizations cannot be subsidiaries of the same holding company.

Soft-dollar arrangements, in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment are an accepted practice in Thailand, but funds with these arrangements typically disclose them.

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 the Thailand. Only a handful of foreign funds currently have registered for sale in Thailand, contributing to the preference of local-domiciled funds by Thai investors.

In Thailand funds are required to have mutual fund supervisors. 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, as mentioned above the mutual fund supervisor is also the custodian.

In Thailand, funds must receive government permission to invest in securities issued in a foreign country. Additionally, funds investing outside of Thailand are required to publish additional risk disclosures related to foreign investment.

In Thailand there are three tax-preferred investment vehicles that allow for investors to save for retirement with savings that are exempt from income taxes: Provident funds, Retirement Mutual Funds (RMF), and Long-term Equity Funds (LTF). 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 RMF must be held until retirement age, but LTF funds can be withdrawn after five years. Individuals are allowed to contribute and deduct from income the lesser of 15% of wages, or 500,000 Baht into these savings vehicles annually. Additionally, employer contributions and distributions to the provident fund are exempt from taxes. Funds held within a one of these structures are subject to all the regulations of the SEC, but not all funds qualify as RMF, LTF, or provident funds.

In Thailand, there are no capital gains taxes on mutual funds. The Thai tax system has many exemptions available to investors. Dividends in excess of exemptions are taxed at a maximum marginal rate of between 30% and 39%. Fund investors are responsible for taxes on dividends upon distributions. But these taxes are frequently offset by a deduction for savings in equity funds.

Most goods and services in Thailand are subject to a VAT, fund investment services are subject to this tax.

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Disclosure

In Thailand, funds are required to publish annual reports separately from offering documents. Simplified prospectuses are also required in Thailand. The typical simplified prospectus reviewed was written in an unusual question and answer format. The simplified document was 12 pages in length and only included information on a single fund. It contained the fund's itemized and cumulative TER, a performance table on a cumulative basis since inception, and full portfolio. The document did not contain an example of the impact of expenses, the name and tenure of the portfolio manager, nor a trading cost measure. The information included was quite specific to the subject investment, risks were clearly outlined as were details on operations, but the prospectus did assume an investor would have some basic knowledge of fund operations. The AIMC website has educational resources for novice investors. This simplified prospectus followed AIMC standards for presentation. This format and information meets the goals of a simplified prospectus.

In Thailand, fund companies must publish shareholder reports semi-annually. The financial statements must be audited by an auditor that is not associated with the asset-management company and are published shortly after the fiscal year ends. Management's discussion of performance is required information, but it is typically general and does not tie portfolio actions to fund performance. A typical annual report reviewed included a general fund commentary, top sectors, comparative financial statements, TER, and other useful information.

Thailand requires that funds publish the TER for the most recent fiscal year and one prior year. In practice Thai funds include a itemized breakdown of expenses such that investors can easily tell what portion of fees pay for fund services. Fees are presented in a uniform format such that investors can easily compare the costs of two funds.

Funds in Thailand are not required to include an example of the impact of fees, but many funds do provide this information.

In Thailand, trading cost information is occasionally provided in the form of a turnover ratio.

Thai mutual funds are required to disclose long portfolio holdings to the public semi-annually.

Funds domiciled in Thailand are required to provide the names of the licensed portfolio manager, but tenure is rarely provided. Funds occasionally omit this information despite the SEC requirement, and the SEC enforcement has been weak in this area. No information on the compensation of individual managers or their investments alongside investors is available.

In Thailand there is a centralized website with current and complete fund literature accessible by individual investors.

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Fees and Expenses

Thai individual investors have the choice to invest in locally domiciled funds as well as foreign feeder funds domiciled in Thailand.

The median asset-weighted expense ratio of fixed-income funds in Thailand is 0.57%.

The median asset-weighted expense ratio of equity funds in Thailand is 1.73%.

The median asset-weighted expense ratio of money market funds in Thailand is 0.50%

Between 25% and 50% of funds in Thailand report charging a front load. Between 50% and 75% of funds in Thailand are considered no-load.

In Thailand, stated loads and breakpoints are not negotiable with the sales agent.

The SEC permits funds to charge asymmetrical performance fees, but to date it is not a known practice for funds to charge these fees.

It is not a known practice for investors to pay for advice in addition to loads and TERs.

Sales and Media

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

"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.

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 little regulation or oversight.

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

In Thailand open-end mutual funds are the most popular fund-like product for investors to own.

Mutual funds in Thailand generally have strict investment minimums. The median investment minimum of both funds available for sale and domiciled in Thailand is less than US$500.

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It is estimated that less than 20% of funds in Thailand are sold through a distributor with an open-architecture system. Thai investors have most sales channels widely available including: fund supermarkets, traditional brokerage, direct from the fund, and banks and insurance companies. However, the bank and insurance company sales channel dominates fund sales in Thailand.

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United Kingdom

Regulation & Taxation

There is one main regulator in the United Kingdom, the Financial Services Authority (FSA). The FSA is accountable to the Treasury and through the Treasury to Parliament. The FSA operates independent of the government. The FSA's statutory objectives are market confidence, public awareness, consumer protection, reduction of financial crime. The FSA does this by issuing rules and guidelines. Additionally as a member of the European Union, the United Kingdom's laws conform to EU directives including UCITS III and MiFID.

The FSA is also the organization responsible for regulating fund advertising and sales practices. Since 2006, the FSA has undertaken a comprehensive Retail Distribution Review (RDR). The RDR intends to improve the investor experience in three areas:

- Improve the clarity with which firms describe their services to consumers;
- Address the potential for adviser remuneration to distort consumer outcomes; and
- Increase the professional standards of advisers.

As this research paper went to press, the FSA had released proposed rules regarding fund compensation to advisers. The RDR proposes a requirement that investors acknowledge and agree to ongoing fees paid by funds to advisers, commonly known as trailers or retrocessions. These proposals aim to increase transparency in fees, such that investors are more aware of what portion of fund fees pay for investment advice. While this Morningstar survey does not directly address transparency, the FSA's proposals are a positive step forward.

In addition to the FSA's Retail Distribution Review, the government in the United Kingdom has proposed a complete overhaul of the financial regulatory regime. The proposed changes would move the FSA's duties to the Bank of England and two new sub-agencies, a Prudential Regulation Authority and a Financial Conduct Authority. It is understood that most areas of fund management addressed in this survey will be regulated by the Financial Conduct Authority. We have evaluated the UK based upon the regulations in place and our observations over the years prior to this survey.

Regulations in the United Kingdom are somewhat up to date, but can be delayed and only partially address known problems. The regulators are staffed sufficiently for comprehensive enforcement actions, but historically we have rarely observed proactive oversight identifying improprieties. This may be changing, and we have observed more enforcement actions related to sales practices and inappropriate labeling of funds. Additionally, local observers note that the FSA does not pay salaries that are competitive with industry, so the regulator has difficulty maintaining personnel. Some enforcement actions are public in the United Kingdom. The regulation and supervision of fund advertisements are perceived as somewhat effective, identifying the worst violations.

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

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that the custodian be independent of the fund manager, and the two organizations cannot be subsidiaries of the same holding company.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research related favors such as entertainment. As a member of the European Union, the United Kingdom complies with MiFID, which requires that soft-dollar arrangements be used for the benefit of investors, be disclosed, and that managers seek best execution of trades. The FSA Conduct of Business Sourcebook (COBS) specifically outlines permissible soft-dollar transactions. The United Kingdom allows soft-dollar arrangements that adhere to these restrictions, and requires that they be disclosed to investors.

The United Kingdom allows funds registered in compliance with the UCITS III directive to be marketed to British investors. Foreign-domiciled funds are somewhat available in the United Kingdom. But many independent advisors are not familiar with foreign funds and do not offer these to investors, leading investors to prefer funds domiciled in the United Kingdom .

In the United Kingdom funds are required to have Boards of Directors. There is no requirement of independence of the board; in fact boards can consist of a single member including the corporate parent.

In the United Kingdom there is no limitation on funds investing in securities issued in foreign countries.

In the UK, 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. Both employer-sponsored and personal pension plans are common in the United Kingdom. Contributions by individuals into personal pension accounts are generally exempt from income taxes, but beginning in April 2010, some of these tax exemptions phase out for individuals earning more than £150,000. Pension plans have different regulations than taxable funds, but many fund choices are available in both types of accounts.

In the United Kingdom short-term capital gains and long-term gains are treated equally. In 2010, the first £10,100 of capital gains were exempt from taxation. Additional gains are taxed at 18%. Thus for purposes of this survey, the maximum marginal tax rate for a typical fund investor is between 10% and 19%. The maximum marginal rate on dividends is between 30% and 39%. Fund investors are responsible for taxes on capital gains upon distributions or sale of shares. Fund investors are responsible for taxes on dividends and interest earned, but a portion is withheld by the issuing entities. Funds are not required to distribute dividends and it is common practice for funds to offer both accumulating and distributing share classes. Our local analysts observe that the regulatory and tax regime for investors in the United Kingdom is evolving quickly due to the change in government. This analysis reflects the tax regime in place for investment income earned in the 2010 calendar year.

In the United Kingdom investment services are exempt from the country's VAT.

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Disclosure

In the United Kingdom, funds are required to publish annual reports separately from offering documents. Simplified prospectuses are also required in the United Kingdom. For locally domiciled non-UCITS funds these are known as Key Features Document (KFD). For UCITS funds and most foreign funds these are known as simplified prospectuses. The simplified prospectus reviewed was written in a question and answer format that is similar only to the format found in Thailand. The document contained eight pages, but only one page contained information specific to the fund. The remaining pages contained general investment education along with operating information that is common to many funds offered by the provider. The document was clearly written and was free of most technical terms. Risks and details of operations within the prospectus were specific to the subject investment. It contained the fund's TER, examples on the impact of fees for lump sum or monthly deposits, a turnover ratio, and a 10-year performance table. The document did not contain the name and tenure of the portfolio manager, nor portfolio holdings information. This document meets the goals of a simplified prospectus, in our view. In the United Kingdom, fund companies must publish shareholder reports semi-annually.

The financial statements must be audited by an auditor that is not associated with the asset-management company and within 120 days after the fiscal year ends. Management's discussion of performance is required information, but it is typically general and does not tie portfolio actions to fund performance. Funds are required to file a "long-form" report to the regulator (the FSA) and are only required to send this version to shareholders if requested. Although fund companies may send the long-form report to investors by default, many elect to send a "short-form" report, which omits many things including the complete portfolio holdings. A typical long-form annual report reviewed included a general fund commentary, comparative financial statements with full portfolio holdings, TER, and other useful information.

The United Kingdom requires that funds publish the TER for the most recent fiscal year and one prior year. Fees are often presented in aggregate such that investors cannot tell what portion of fees covers which services. Fees are presented in a somewhat uniform format such that investors can with effort compare the costs of two funds.

Funds in the United Kingdom are required to provide two examples of the impact of fees. These illustrate the costs of a lump sum investment, or a monthly investment over one year at a standard rate of return.

In the United Kingdom, the portfolio turnover ratio must be clearly disclosed in the simplified prospectus and the annual report. Actual brokerage commissions are available in the financial statements. With the adoption of the KIID the turnover ratio will cease being available.

Mutual funds in the United Kingdom are required to disclose full portfolio holdings to the public semi-annually.

Funds domiciled in the United Kingdom often 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.

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The United Kingdom does not have a publicly sponsored website with an electronic repository of fund documents.

Fees and Expenses

British individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in the United Kingdom. The TERs of equity and fixed-income funds domiciled in the United Kingdom are moderately lower than those offered by foreign fund sponsors.

The median asset-weighted expense ratio of fixed-income funds available for sale in the United Kingdom is 1.17%.

The median asset-weighted expense ratio of fixed-income funds domiciled in the United Kingdom is 1.14%.

The median asset-weighted expense ratio of equity funds available for sale in the United Kingdom is 1.90%.

The median asset-weighted expense ratio of equity funds domiciled in the United Kingdom is 1.67%.

The median asset-weighted expense ratio of money market funds available for sale in the United Kingdom is 0.72%

The median asset-weighted expense ratio of money market funds domiciled in the United Kingdom is 0.41%

Between 50% and 75% of both funds available for sale and domiciled in the United Kingdom report charging a front load. Between 25% and 50% of both funds available for sale and domiciled in the United Kingdom are considered no-load.

In the United Kingdom, stated loads and breakpoints are negotiable with the sales agent.

Funds in the United Kingdom 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.

Investors in the United Kingdom sometimes pay for advice in addition to loads and TERs.

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Sales and Media

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

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is not allowed in the United Kingdom. The ban on "off-the-page" is enforced, for example online fund supermarkets require investors to certify receipt of the simplified prospectus.

In the United Kingdom, the practice of compensating advisors (either monetarily or through awards) for selling particular funds is allowed with little regulation or oversight, but disclosure is required. The practice of using sales contests to motivate general sales of funds is prohibited.

We observe that investors in the United Kingdom can find mutual fund articles in their newspapers on a weekly basis. These articles rarely mention mutual fund fees when they are high, and they rarely promote long-term investing.

In the United Kingdom, both funds and insurance-linked investments are common products. Insurance products have a tax advantage that encourages use. Frequently, funds held within the insurance wrapper are also available to direct investors.

Mutual funds in the United Kingdom generally have investment minimums, but these are frequently waived for investors in an automatic investment plan. The median investment minimum of both funds available for sale and domiciled in the United Kingdom is above US$2000.

It is estimated that over 80% of funds in the United Kingdom are sold through a distributor with an open-architecture system. British investors have all sales channels widely available including: independent advisors, fund supermarkets, traditional brokerage, direct from the fund, and banks and insurance companies. The independent advisor channel dominates fund sales in the United Kingdom.

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United States

Regulation & Taxation

Mutual funds in the United States are regulated under the Investment Company Act of 1940. The 1940 Act requires fund companies to register with the Securities and Exchange Commission (SEC). The SEC was created by the Securities Exchange Act of 1934. The mission of the SEC is as follows: "to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation."

The Financial Industry Regulatory Authority (FINRA) is a self-regulatory authority for securities firms doing business publicly in the United States. FINRA administrates and interprets the SEC's legal framework for sales literature and fund advertising.

Regulations in the United States are somewhat up to date, but can be delayed and only partially address known problems. The regulators are not adequately staffed and only gross improprieties draw the attention of regulators. Most enforcement actions are public in the United States. The regulation and supervision of fund advertisements is effective, and prevents misleading advertising.

All countries in this survey, including the United States, require funds to be audited by and independent party at least once a year. The 1940 Act requires that funds use a custodian to ensure safekeeping of fund assets. The custodian may be contracted to provide additional services such as acting as the fund's transfer agent and/or dividend disbursing agent, or the function of custodian can be the sole service provided. The custodian is allowed to be an affiliated company in the United States.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research related favors such as entertainment. The SEC's stance toward soft dollars is that such payments are permissible as long as the services provided are lawful and appropriate to portfolio manager performance. Soft-dollar arrangements are to be disclosed in the prospectus.

The United States does not allow funds domiciled in other countries to register for sale to American investors. Foreign-domiciled funds are not typically available in the United States.

In the United States funds are required to have a Boards of Directors. There is a requirement that at least 40% of the board be independent directors.

In the United States funds are prohibited from investing in securities of Iranian and Cuban companies.

In the United States, there are tax incentives for individuals who invest for retirement through a variety of account types. Employer-sponsored 401(k) plans allow workers to save toward retirement on a pretax basis. Tax laws allow for a wide variety of securities to be held within 401(k) accounts. Money must be kept in the plan until the employee reaches 59 1/2 years of age or becomes disabled. Withdrawals from a 401(k) are subject to taxation as ordinary income.

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Individuals also may participate in Individual Retirement Accounts (IRAs). In a traditional IRA, contributions are made after taxes but are tax deductable. Distributions are taxed as normal income. For Roth IRAs, contributions are made after taxes, and normal distributions are not subject to income tax. Both the traditional IRA and the Roth IRA have income limits and contribution limits. Again, distributions can begin at the age of 59 1/2 years or if the individual becomes disabled.

In the United States investments held in retirement accounts are subject to the same laws and regulations as those held in taxable accounts. The tax benefit is carried by the account and not the investment vehicle.

In the United States, the long-term capital gains rate, gains on assets that had been held for more than a year before being sold, is lower than the rate on short-term capital gains. Capital gains on investments held longer than a year are taxed at 15%. Capital gains on investments held for a period shorter than a year are taxed at the individual's marginal income tax rate. The maximum marginal combined state and federal income tax rate on short-term capital gains in the United States is over 40%. The typical tax rate on dividend income in the United States is between 10% and 19%.

Unlike most countries in this survey, the fund investors in the United States are responsible for taxes earned within fund investments annually. Fund investors can owe taxes on realized gains within their investments despite holding a fund with an unrealized loss. Fund investors in the United States are also responsible for dividends earned within the fund on an annual basis. In practice most funds distribute dividends, as well as long-term and short-term capital gains, at least once a year for ease of tax payments.

There is no national consumption tax in the United States. Additionally, fund management services are exempt from local consumption taxes, which generally do not tax services.

Disclosure

In the United States, funds are required to publish annual reports separately from offering documents. Starting with annual filing periods beginning after January 2010, simplified prospectuses are also required in the United States. These are known as summary prospectuses rather than simplified. The typical summary prospectus reviewed was eight pages in length for a single fund. The information included was written in clear language and was free of most technical terms. Risks and details of operations within the prospectus were specific to the subject investment. The document contained the fund's TER, examples of the impact of fees for lump-sum investments for each share class, a turnover ratio, and a 10-year performance table, as well as portfolio manager information. The document did not contain holdings information. This summary prospectus meets the goals of a simplified prospectus.

In the United States, fund companies must publish shareholder reports semi-annually. The financial statements must be audited by an auditor that is not associated with the asset-management company and published shortly

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after the fiscal year ends. Management's discussion of performance is required information, but it is typically general and does not tie portfolio actions to fund performance. A typical long-form annual report reviewed included a manager's report, TER, fund statistical information, a performance table, full portfolio holdings, and biographies of key individuals.

Funds in the United States are required to publish additional fillings to supplement the prospectus and periodic shareholder reports. In the United States the Statement of Additional Information (SAI) contains supplemental information on the operation of the fund. Details on the relationships between the fund company and outside service providers, the structure of the fund, investment and borrowing policies, securities lending, and other specific operating details are included. The SAI is also the document where information on management's compensation is found as well as the details of performance fee arrangements and the information on managers and Board of Directors' holdings within the fund. In addition to the SAI, funds must also publish Form N-PX that discloses how the fund has voted portfolio securities in the prior year.

The United States requires that funds publish the TER for the most recent fiscal year and four prior years. Fees are often presented in aggregate within the TER, but United States fund accounting standards requires that any expense greater than 5% of the total be itemized within the financial statements. Investors who wish to understand what portion of fees pays for which expense can sometimes understand this from the detailed disclosures. Fees are presented in a uniform format such that investors can with effort compare the total costs |of two funds.

Funds in the United States are required to provide an example of the impact of fees. These illustrate the costs of a lump-sum investment held between one and 10 years at a standard rate of return.

In the United States, the portfolio turnover ratio must be clearly disclosed in the prospectus and actual brokerage commissions are available in the financial statements and the SAI.

Mutual funds in the United States are required to disclose full portfolio holdings to the public quarterly.

Funds domiciled in the United States are required to provide the name and tenure of the portfolio manager, additionally funds must immediately publish information about changes to the portfolio management team. Information on the compensation of individual managers and heir investments alongside investors is available within the SAI.

Fund company filings in the United States can be found via the electronic database called EDGAR (Electronic Data Gathering, Analysis and Retrieval), developed by the SEC. EDGAR requires companies to file all documents and data electronically with the SEC, in a timely manner. EDGAR allows individual investors to search its website and access and download regulatory filings free of charge.

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Fees and Expenses

In the United States, individual investors do not have the choice to invest in foreign-domiciled funds. The TER of a typical fund available for sale is identical to the typical domiciled fund.

The median asset-weighted expense ratio offixed-income in the United States is 0.75%.

The median asset-weighted expense ratio ofequity fund in the United States is 0.94%.

The median asset-weighted expense ratio ofmoney market fund in the United States is 0.47%.

Less than 25% of funds in the United States report charging a front load, between 50% and 75% of funds in the United States are considered no-load.

In the United States, stated loads and breakpoints are not negotiable with the sales agent.

The United States is one of two countries in this survey that require that any performance fees paid to fund advisors include a symmetrical reduction in fees for underperformance, also known as fulcrum fees. The terms of fulcrum fees can be complex and disclosed poorly, and investors can only somewhat estimate fees based upon current performance.

Investors in the United States sometimes pay for advice in addition to loads and TERs.

Sales and Media

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

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is not allowed in the United States, but it is unclear how frequently this rule is enforced.

In the United States, the practice of compensating advisory firms for shelf space for particular funds is allowed with little regulation or oversight, but disclosure is required. The practice of using sales contests to motivate general sales of funds is allowed with little regulation or oversight.

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

In the United States open-end funds are the most common product for an investor to own.

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Mutual funds in the United States generally have investment minimums, but these are frequently waived for investors in an automatic investment plan. The median investment minimum of both funds available for sale and domiciled in the United States is between US$1000 and US$1500.

It is estimated that over 80% of funds, outside of 401(k) plans, are sold through a distributor with an open-architecture system. American investors have all sales channels widely available including: independent advisors, fund supermarkets, traditional brokerage, direct from the fund, and banks and insurance companies. No sales channel dominates fund sales in the United States.

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Methodology

Within each topic area, both questions and answers were weighted to give greater importance to high-priority issues, primarily questions surrounding fees and transparency. Each country received a letter grade commensurate with its score in each category as well as an overall grade reflecting the summation of the category scores. The scores are based on a combination of factual research and interviews with Morningstar analysts residing in each country.

Questions are assigned a weighting from 0-25, with the highest-priority questions receiving a 25. Responses may receive full, partial, or no credit. The total score given to a country for each question is determined by multiplying the question weighting by the amount of credit was given. Question scores are summed in each of the four topic areas: Regulation &and Taxation, Disclosure, Fees and Expenses, and Sales & Media.

For each of the four topic areas, the country is assigned a raw score that consists of total points earned for the topic area, divided by the total points available. For example, in the topic of Government, Regulations and Taxes the United Kingdom received 146 out of 200 possible points.

Raw scores are then translated into letter grades by the following process:
First, determine the average scores for the area being evaluated.

[1] $$\bar{x} = \frac{\sum x}{N}$$

Where:

$\bar{x}$	=	Mean of the grades in the area
x	=	Grade for each country
N	=	Total number of countries

Next, calculate the standard deviation for the range of scores for the area being evaluated. This will determine the spread of the survey grades.

[2] $$S = \left(\sum \left(\left(x - \bar{x}\right)^2 / (N-1) \right) \right)^{1/2}$$

Where:

S	=	Standard deviation of the grades in the area
$\bar{x}$	=	Mean of the grades in the area
x	=	Grade for each country
N	=	Total number of countries

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Then, calculate the z-score for each country. The z-score determines how far each country's score is from the average.

[3] $$z = \left(x - \bar{x}\right) / S$$

Where:

z	=	z-score for each country
S	=	Standard deviation of the grades in the area
$\bar{x}$	=	Mean of the grades in the area
x	=	Grade for each country

Choose a desired mean and a desired standard deviation. Using a stated mean and standard deviation, the grades can be plotted on a normal distribution, a bell curve. Using the desired mean, 80%, and desired standard deviation, 10%, each country's curved grade is calculated for a topic.

[4] $$G = \overline{x_d} + \left(z * S_d\right)$$

Where:

G	=	Curved grade for country
z	=	z-score for each country
S_d	=	Desired standard deviation
$\bar{x}_d$	=	Desired mean

Overall country grades are curved based upon a weighted average of the raw component scores. The overall grade uses same methodology as the individual topic areas. The four subject areas are weighted based upon a qualitative analysis of the survey questions. The topic weights are as follows.

Topic Area		Weight
Regulation and taxation	=	20%
Disclosure	=	30%
Fees and Expenses	=	30%
Sales & Media	=	20%

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Appendix: Survey Questions and Responses

Regulation & Taxation

Question	Answers	Question weight	Answer weight	Respondents	AU	BE	CA	CN	FR	DE	HK	IN	IT	JP	NL	NZ	NO	SG	ZA	ES	SE	CH	TW	TH	UK	US
Are the laws and regulations governing the investment industry regularly updated to reflect changes in the investment industry?		5																								
	Yes, the financial authorities regularly update regulations.		100%	10		•		•				•		•	•			•		•	•		•		•	
	Somewhat, the regulations are updated but are often delayed or only partially address known problems.		75%	12	•		•		•	•	•		•			•	•		•			•		•		•
	No the financial regulations are stagnant and rarely change.		0%	0																						
Is the regulatory organization widely regarded as having enough staff and commitment to fulfill its mission?		5																								
	Yes, it is fully staffed and able to proactively investigate improprieties.		100%	4				•				•						•					•			
	Somewhat; enforcement actions are comprehensive but there is little proactive oversight.		100%	14	•	•	•		•	•	•		•	•	•		•			•		•		•	•	
	Not adequate; enforcement is spotty and only gross improprieties draw the attention of regulators.		50%	4												•			•		•					•
	Completely inadequate; enforcement officials tend to fall in line with the industry and rarely identify problems independently.		0%	0																						
If a regulator sanctions an individual fund, is the action public?		10																								
	Most, if not all sanctions are disclosed.		100%	16				•	•	•	•	•	•	•		•	•	•	•	•	•	•	•			•
	Certain types of actions are disclosed.		50%	4	•		•																	•	•	
	Few regulatory actions are disclosed.		0%	2		•									•											
Are advertising and sales practices regulated effectively?		5																								
	Yes, the financial regulatory body supervises advertising in an effective manner.		100%	14	•	•	•	•				•	•	•	•	•		•	•	•					•	•
	Somewhat; the agency regulating advertising and sales only identifies the worst violations.		50%	7					•		•						•				•	•	•	•		
	No; sales and advertising are not effectively regulated.		0%	1						•																
Are funds required to have their annual reports audited by an independent organization?		10																								
	Yes.		100%	22	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
	Yes, but it may be affiliated.		70%	0																						
	No audit is required.		0%	0																						
Do regulations bar managers from performing the function of custodian of fund assets?		10																								
	Yes, and the custodian must be an independent firm.		100%	7			•			•				•	•				•					•	•	
	Yes, but the custodian can be an affiliated firm.		65%	9	•	•			•				•		•	•	•			•	•					•
	Affilliated firms are allowed--with restrictions to protect assets.		75%	6				•			•	•						•				•	•			
	No, the management firm can act as custodian.		0%	0																						
Are funds allowed to direct transactions to brokerage houses in exchange for free research, hardware, software, or even non-research favors such as entertainment? This is commonly known as soft dollars, softing, or soft commissions.		10																								
	Soft-dollar arrangements are very uncommon or prohibited.		100%	1																			•			
	Soft-dollar arrangements are rare, but still occur.		75%	1										•												
	Soft-dollar arrangements are somewhat common but must be disclosed.		50%	18	•	•	•	•	•	•	•		•		•		•	•	•	•	•	•		•	•	•
	Soft-dollar arrangements are common and there is no mandatory disclosure.		0%	2								•				•										
Do any funds registered in other countries receive automatic registration in your country?		10																								
	Yes, UCITS funds receive automatic registration.		100%	9		•			•	•			•		•		•			•	•					•
	Yes, funds registered in some specific countries receive automatic registration.		50%	2	•											•										
	No, funds must separately register in the home country.		50%	11			•	•			•	•		•				•	•			•	•	•		•
Are foreign funds easily available to investors?		5																								
	Yes, foreign-domiciled funds easily obtain regulatory approval and are broadly distributed.		100%	12					•	•	•		•	•	•		•	•		•	•	•	•			
	Somewhat; foreign-domiciled funds are technically available but domestic restrictions limit investors' access.		50%	4		•										•			•						•	
	No; foreign funds are very rarely available to domestic investors.		0%	6	•		•	•				•												•		•
Do investors prefer home-domiciled funds?		0																								
	No; investors are neutral to domicile when making a fund investment.		100%	10		•			•	•			•		•			•	•		•	•	•			
	Investors tend to invest in funds domiciled in their home country.		50%	6										•		•	•			•				•	•	
	Investors do not have the choice to invest in funds domiciled in other countries.		50%	5	•		•	•				•														•
	Investors tend to invest in funds domiciled in foreign countries.		50%	1							•															
Are funds required to have supervisory boards or boards of directors?		10																								
	Yes, and the board must have a minimum level of independent directors.		100%	6								•			•		•	•	•							•
	Yes, but there is no requirement of independence.		60%	5		•				•	•											•			•	
	Yes, but the decisions that require the shareholder board are limited.		40%	4	•		•	•																•		
	No, funds are not required to have supervisory boards.		0%	7					•				•	•		•				•	•		•			

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Regulation & Taxation

Question	Answers	Question weight	Answer weight	Respondents	AU	BE	CA	CN	FR	DE	HK	IN	IT	JP	NL	NZ	NO	SG	ZA	ES	SE	CH	TW	TH	UK	US
Are funds limited in their ability to invest in stocks and bonds issued in areas other than the home country?		20																								
	No, the country of issuance has no effect on the fund's choice to invest.		100%	18	•	•	•		•	•	•		•	•	•	•	•	•		•	•	•	•		•	•
	Permission is required to do so.		50%	4				•				•							•					•		
	Funds may invest in stocks and bonds issued in the home country only.		0%	0																						
Does the government have specific tax incentives to invest for retirement purposes?		20																								
	Yes.		100%	21	•	•	•		•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
	No.		0%	1				•																		
	There are no taxes at the investor level.																									
Are funds with retirement incentives identical to those subject to taxation?		10																								
	Yes, the fund choices are identical. It is the account that carries the tax incentive.		100%	4										•	•		•									•
	Retirement share classes follow same regulations.		80%	5	•		•									•						•		•		
	Somewhat; the choices appear identical but disclosure and other regulations are not identical.		50%	7		•					•	•						•	•		•				•	
	No; in order to receive tax defferals, the choices are limited.		50%	5					•	•			•							•			•			
	There are no retirement incentives.		0%	1				•																		
Are there tax incentives favoring long-term investors over short-term investors?		10																								
	Yes, taxes on gains in investments held longer than a certain period are lower than taxes on investments held less than the regulated period.		50%	6	•	•			•			•					•									•
	No; taxes on gains in investments are the same for short-term and long-term investors.		0%	9			•			•			•	•		•			•	•	•				•	
	There are no taxes levied directly on fund investments.		100%	7				•			•				•			•					•	•		
What is the maximum marginal tax rate on short-term fund investments?		0																								
	Less than 10%.		100%	6				•			•		•					•					•	•		
	10% to 19%.		75%	7			•					•		•		•			•						•	
	20% to 29%.		50%	3		•				•							•			•						
	30% to 39%.		25%	3					•												•					
	More than 40%.		0%	3	•																					•
What is the maximum marginal tax rate on long-term fund investments?		0																								
	Less than 10%.		100%	8		•		•			•	•						•				•	•	•		
	10% to 19%.		75%	10			•		•				•	•	•	•	•		•						•	•
	20% to 29%.		50%	3	•					•										•						
	30% to 39%.		25%	1																	•					
	More than 40%.		0%	0																						
What is the maximum marginal tax on dividends paid?		0																								
	Less than 10%.		100%	3				•			•							•								
	10% to 19%.		75%	4									•	•	•											•
	20% to 29%.		50%	6		•				•		•					•			•			•			
	30% to 39%.		25%	7			•		•							•					•	•		•	•	
	More than 40%.		0%	2	•														•							
When do fund investors pay capital gains taxes?		0																								
	Investors pay taxes on realized and unrealized capital gains annually.		0%	3									•		•	•										
	Investors pay taxes earned within the fund annually.		25%	3	•		•																			•
	Investors pay taxes on distributions or sales of fund shares.		50%	9		•			•			•		•			•		•		•				•	
	Investors can defer taxes with qualified reinvestments.		75%	2						•										•			•			
	There are no taxes levied directly on fund gains.		100%	5				•			•							•				•	•			
When do fund investors pay taxes on interest or dividends?		0																								
	Investors pay taxes on dividends earned within the fund annually.		0%	12	•	•	•			•		•	•		•	•	•		•					•			•
	Investors pay taxes on distributions.		50%	8					•					•				•		•	•	•			•	•	
	Investors can defer taxes with qualified reinvestments.		75%	0																						
	There are no taxes levied directly on fund income.		100%	2				•			•																

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Regulation & Taxation

Question	Answers	Question weight	Answer weight	Respondents	AU	BE	CA	CN	FR	DE	HK	IN	IT	JP	NL	NZ	NO	SG	ZA	ES	SE	CH	TW	TH	UK	US
How much tax is paid on the total return of a balanced fund held for five years?		50																								
	0%, or deductions on income taxes are available.		100%	3							•							•						•		
	Less than 10%.		75%	5		•		•	•											•			•			
	10% to 19%		50%	7						•		•	•	•		•			•			•				
	20% to 29%.		25%	7	•		•								•		•				•				•	•
	More than 30%.		0%	0																						
Is the purchase of asset-management services taxed? (Does VAT or sales tax apply to investment services?)		10																								
	Yes.		0%	9	•		•					•		•		•		•	•				•	•		
	Somewhat.		50%	6		•			•	•					•						•	•				
	No.		100%	7				•			•		x				•			•					•	•

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Disclosure

Question	Answers	Question weight	Answer weight	Respondents	AU	BE	CA	CN	FR	DE	HK	IN	IT	JP	NL	NZ	NO	SG	ZA	ES	SE	CH	TW	TH	UK	US
Are funds required to publish a prospectus, offering memorandum, or similar comprehensive disclosure document in addition to operational regulatory filings (such as shareholders' reports)?		10																								
	Yes.		100%	22	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
	Somewhat; offering information is combined with shareholders' reports.		50%	0																						
	No.		0%	0																						
Are funds required to prepare a simplified or short-form prospectus in addition to the full prospectus/offering memorandum? (Note: "Simplified prospectus," "short-form prospectus," and "key-information documents" are various names for a simplified prospectus.)		20																								
	Yes, a simplified prospectus is required and it is in plain language that is understandable to a layperson.		100%	12		•			•	•		•			•	•				•	•	•		•	•	•
	Prospectuses are one-time documents; all new funds have simplified prospectuses that are understandable to a layperson.		75%	1													•									
	No, but prospectuses are in plain language and understandable		50%	1	•																					
	Somewhat, a simplified prospectus is required but it remains difficult for a layperson to comprehend, or is not much shorter than the full prospectus.		50%	6			•	•					•	•					•				•			
	Fact sheets contain disclosures nearly equivalent to simplified prospectuses.		75%	2							•							•								
	No, simplified documents are not required.		0%	0																						
How frequently must funds provide shareholders' reports?		10																								
	Monthly reports are required.		100%	0																						
	Quarterly reports are required.		100%	2				•												•						
	Semiannual reports are required.		75%	18		•	•		•	•	•	•	•	•	•	•	•	•	•		•	•		•	•	•
	Only annual reports are required.		50%	2	•																		•			
	Investor reports are not required disclosure.		0%	0																						
Are funds required to publish a section on management's discussion of fund performance within fund literature?		10																								
	Yes, and the discussion is generally insightful and helpful for investors.		100%	4				•				•						•			•					
	Yes, but the discussion is typically generic.		50%	13		•	•		•				•	•	•	•			•	•			•	•	•	•
	It is not required but it is typically provided and generally insightful and helpful for investors.		75%	1													•									
	No discussion is required, or typically provided.		0%	4	•					•	•											•				
When expenses are presented to investors are all relevant items included and itemized?		10																								
	Yes, expense information is both itemized and comprehensive.		100%	6			•	•				•			•			•						•		
	Expenses are comprehensive but not itemized.		100%	16	•	•			•	•	•		•	•		•	•		•	•	•	•	•		•	•
	No.		0%	0																						
How are the fees within the total expense ratio presented to investors?		10																								
	In both currency and percentage, such that an investor will know how much is paid from the fund cumulatively and apply that percentage to their investment.		100%	16	•	•	•			•	•	•	•		•			•	•		•	•	•	•	•	•
	Currency in a format that enables individual investors to determine the cost of their investment.		90%	1										•												
	In percentage only.		80%	2					•											•						
	In currency, within the financial statements.		40%	3				•								•	•									
	Expense information is not available.		0%	0																						

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Disclosure

Question	Answers	Question weight	Answer weight	Respondents	AU	BE	CA	CN	FR	DE	HK	IN	IT	JP	NL	NZ	NO	SG	ZA	ES	SE	CH	TW	TH	UK	US
Are historic Total Expense Ratio details included in expense disclosure?		10																								
	Yes, funds are required to include at least the last five years' TER.		100%	3			•													•						•
	Yes, funds are required to include at least the last three years' TER.		80%	2									•		•											
	Funds are only required to disclose the prior year's and current expected TER.		50%	5								•						•					•	•	•	
	Funds are only required to disclose the prior year's TER.		40%	7	•	•			•	•	•										•	•				
	No historic information is disclosed.		0%	5				•						•		•	•		•							
Do you believe investors can easily tell how much they are paying for each of the various fund services (management, administration, marketing, account maintenance, move commissions, etc) from the disclosure in your market?		10																								
	Yes, I strongly believe they can.		100%	3		•									•									•		
	Somewhat.		50%	12	•		•	•	•	•	•	•		•				•			•	•				•
	No.		0%	7									•			•	•		•	•			•		•	
Is there a monetary illustration (such as in currency, not percentages) of the total expenses an investor would pay on a standard investment size within fund literature?		15																								
	Yes, it is a required piece of information.		100%	6	•		•						•								•				•	•
	Sometimes, but it is not required.		70%	3												•		•						•		
	No, this information is not required and only infrequently included, if ever.		0%	13		•		•	•	•	•	•		•	•		•		•	•		•	•			
In regards to fee disclosure, is there uniform presentation within fund literature of fees and expenses such that costs can be easily compared across funds?		10																								
	Yes.		100%	12	•	•	•		•				•		•			•		•	•	•		•		•
	Somewhat.		50%	7				•		•		•		•		•			•						•	
	No.		50%	1																			•			
	Other (please explain).		0%	2							•						•									
Are details of trading costs (such as brokerage commissions, trading expense ratios, etc.) available to investors?		15																								
	Yes, funds are required to calculate and provide both implicit costs (change in price from trading decision to order fill, and the cost of the bid-ask spread) and explicit costs (direct commissions) in fund literature.		100%	0																						
	It is common practice to only disclose explicit trading costs.		100%	11		•		•	•		•	•	•	•							•		•		•	•
	Only a proxy for trading costs, such as turnover ratio, is required.		50%	6			•			•					•			•		•		•				
	Trading-cost information is infrequently disclosed in any manner.		0%	5	•											•	•		•					•		
Does your country require disclosure of portfolio holdings?		25																								
	Yes, full disclosure of all long and short holdings to the general public.		100%	17		•	•	•		•	•	•	•	•	•		•	•		•	•	•	•		•	•
	Disclosure of all long positions to the public.		80%	1																				•		
	Disclosure of holdings to the regulator, with partial disclosure to the public.		40%	2					•										•							
	Disclosure to the regulator with none required to the public.		20%	0																						
	There is no required holdings disclosure.		0%	2	•											•										

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Disclosure

Question	Answers	Question weight	Answer weight	Respondents	AU	BE	CA	CN	FR	DE	HK	IN	IT	JP	NL	NZ	NO	SG	ZA	ES	SE	CH	TW	TH	UK	US
If you answered yes to the previous question, what is the frequency of holdings disclosure? (If typical disclosure is more frequent than required disclosure, please indicate both.)		25																								
	Monthly.		100%	2								•					•									
	Quarterly.		80%	5															•	•	•		•			•
	Semiannual.		60%	10			•	•		•	•			•	•			•				•		•	•	
	Annual.		20%	3		•			•				•													
	No on the previous question.		0%	2	•											•										
Are the name and tenure of the portfolio manager included in fund literature?		25																								
	Yes, it is a required piece of information.		100%	3				•															•			•
	The name is provided but not the tenure.		75%	3								•									•			•		
	Annually, but interim information is not available.		75%	1			•																			
	Sometimes; it is not required but many firms include this information.		30%	7					•	•					•		•		•			•			•	
	No, this information is not required and only infrequently included, if ever.		0%	8	•	•					•		•	•		•		•		•						
Do funds disclose information on the manager's investment in funds?		10																								
	Yes, it is a required disclosure.		100%	1																						•
	It is not required, but funds often disclose this information.		75%	1														•								
	The fund sponsor's investment is disclosed but manager disclosure is uncommon.		50%	2				•											•							
	There is no management disclosure, but the board must disclose its investments.		50%	1											•											
	No, it is not required or common practice.		0%	17	•	•	•		•	•	•	•	•	•		•	•			•	•	•	•	•	•	
Do funds disclose information on compensation of managers?		10																								
	Yes, it is a required disclosure.		100%	1																						•
	It is not required but funds often disclose this information.		80%	1														•								
	No, it is not required or common practice.		0%	20	•	•	•	•	•	•	•	•	•	•	•	•	•		•	•	•	•	•	•	•	
Is there a centralized website containing the fund documents (prospectus, annual reports, interim reports, etc.)?		20																								
	Yes, all fund documents are concurrently available on a centralized website for free or a nominal charge.		100%	7			•	•						•								•	•	•		•
	Yes, all fund documents are concurrently available on a centralized website, but access to the website is prohibitively		75%	0																						
	The website exists, but it is not up-to-date or complete.		50%	7		•			•		•	•						•		•	•					
	There is no central website.		0%	8	•					•			•		•	•	•		•						•	

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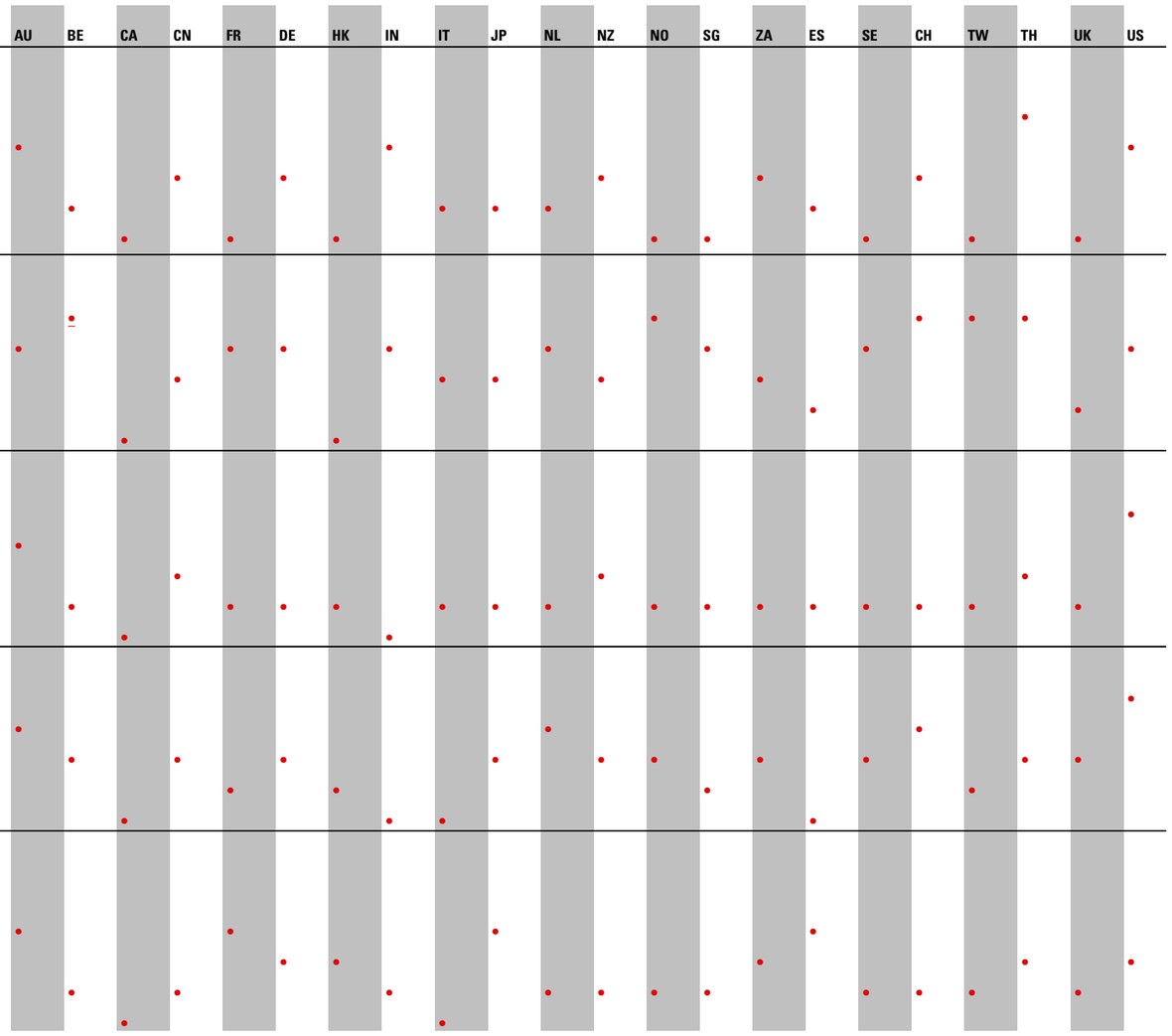
Fees & Expenses

Question	Answers	Question weight	Answer weight	Respondents
What is the dollar-weighted median TER of fixed-income funds available for sale in your country?		20		
	Less than 0.60.		100%	1
	Less than 0.85.		90%	3
	Less than 1.00.		70%	5
	Less than 1.15.		50%	5
	Most than 1.15		25%	8
What is the dollar-weighted median TER of fixed-income funds domiciled in your country?		20		
	Less than 0.60.		100%	5
	Less than 0.85.		90%	8
	Less than 1.00.		70%	5
	Less than 1.15.		50%	2
	Most than 1.15.		25%	2
What is the dollar-weighted median TER of equity funds available for sale in your country?		20		
	Less than 1.00.		100%	1
	Less than 1.25.		90%	1
	less than 1.75.		70%	3
	Less than 2.		50%	15
	More than 2.		25%	2
What is the dollar-weighted median TER of equity funds domiciled in your country?		20		
	Less than 1.00.		100%	1
	Less than 1.25.		90%	3
	less than 1.75.		70%	10
	Less than 2.		50%	4
	More than 2.		25%	4
What is the dollar-weighted median TER of money market funds available for sale in your country?		20		
	Less than 20 bps.		100%	0
	less than 40 bps.		90%	4
	less than 60 bps.		70%	5
	less than 80 bps.		50%	11
	more than 80 bps.		25%	2



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Fees & Expenses

Question	Answers	Question weight	Answer weight	Respondents	AU	BE	CA	CN	FR	DE	HK	IN	IT	JP	NL	NZ	NO	SG	ZA	ES	SE	CH	TW	TH	UK	US
What is the dollar-weighted median TER of money market funds domiciled in your country?		20																								
	Less than 20 bps.		100%	2					•					•												
	less than 40 bps.		90%	3	•	•																•				
	less than 60 bps.		70%	10						•	•						•	•	•		•		•	•	•	•
	less than 80 bps.		50%	4				•				•			•	•										
	more than 80 bps.		25%	3			•						•							•						
Of funds available for sale in your country, what percentage charge front loads?		5																								
	Less than 25%.		100%	2								•														•
	25% to 50%.		80%	5	•		•												•	•				•		
	50% to 75%.		65%	14		•		•	•	•	•		•	•	•	•	•	•				•	•		•	
	More than 75%.		50%	1																	•					
Of funds domiciled in your country, what percentage charge front loads?		5																								
	Less than 25%.		100%	4								•								•	•					•
	25% to 50%.		80%	4	•		•												•					•		
	50% to 75%.		65%	8				•			•		•	•	•	•	•								•	
	More than 75%.		50%	6		•			•	•								•				•	•			
Of funds available for sale in your country, what percentage are no-load?		5																								
	More than 75%.		100%	0																						
	50% to 75%.		80%	4	•														•					•		•
	25% to 50%.		65%	9			•	•			•	•		•		•		•		•					•	
	Less than 25%.		50%	9		•			•	•			•		•		•				•	•	•			
Of funds domiciled in your country what percentage are no load		5																	•							
	More than 75%.		100%	2																•	•					
	50% to 75%.		80%	4	•														•					•		•
	25% to 50%.		65%	10			•	•			•	•	•	•	•	•	•								•	
	Less than 25%.		50%	6		•			•	•								•				•	•			
Are all sales loads and breakpoints disclosed, or are loads negotiable?		10																								
	All sales loads and breakpoints are stated and non-negotiable.		50%	5								•					•			•					•	•
	Somewhat; loads are negotiable for large investors only .		0%	4		•		•	•					•												
	Loads are negotiable with the sales agent.		100%	13	•		•			•	•		•		•	•		•	•		•	•	•		•	

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Fees & Expenses

Question	Answers	Question weight	Answer weight	Respondents	AU	BE	CA	CN	FR	DE	HK	IN	IT	JP	NL	NZ	NO	SG	ZA	ES	SE	CH	TW	TH	UK	US
Are funds permitted to charge asymmetrical performance fees?		10																								
	No, mutual funds are not permitted to charge any performance fees.		100%	3				•				•												•		
	No; all performance-fee schemes must be symmetrical, where management companies face reductions for underperformance that are proportional to additional fees earned for outperformance.		100%	2													•									•
	Yes, funds are permitted to charge performance fees with no offsetting fee reduction for underperformance.		20%	15	•	•	•		•	•	•			•	•	•		•	•	•	•	•			•	
	Somewhat assymetrical performance fees are allowed for certain fund types		40%	2									•										•			
Is enough performance-fee info provided to estimate expenses?		5																								
	Yes, all relevant items are disclosed.		100%	13	•					•	•	•	•		•	•		•	•	•	•	•			•	
	Somewhat.		50%	7		•	•		•					•			•						•			•
	Performance fees are uncommon or restricted.		100%	2				•																•		
	No, performance-fees' terms are poorly disclosed, if at all.		0%	0																						
Do investors pay for advice in addition to loads or TERs?		10																								
	Yes, often.		0%	0																						
	Yes, sometimes.		50%	5	•							•				•									•	•
	Rarely.		75%	15		•	•		•	•	•		•	•	•		•	•	•	•	•	•	•			
	This is not a known practice.		100%	2				•																•		

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Sales & Media

Question	Answers	Question weight	Answer weight	Respondents	AU	BE	CA	CN	FR	DE	HK	IN	IT	JP	NL	NZ	NO	SG	ZA	ES	SE	CH	TW	TH	UK	US
Directed brokerage is the sending of trade transactions to a specific firm in exchange for that firm directing clients toward your funds—not to be confused with soft dollars, which are exchanged for research or entertainment. Are directed-brokerage arrangements an accepted practice in your country?		10																								
	No, directed brokerage is not permitted.		100%	9			•		•	•	•				•			•				•		•		•
	Directed brokerage is not restricted, but it is not a common practice.		80%	11	•	•						•	•	•		•	•			•	•		•		•	
	Directed brokerage is a common practice.		0%	2				•											•							
Are funds allowed to market funds "off-the-page" without investors being provided a prospectus?		5																								
	Yes, investors can purchase a fund based on advertising, without the fund being required to provide a prospectus.		0%	0																						
	Somewhat; funds are technically required to provide a prospectus concurrently to sale, but in practice purchases occur before investors receive the prospectus.		50%	11		•	•				•	•			•					•	•	•	•	•		•
	No, investors must receive a prospectus prior to purchase of a fund.		100%	11	•			•	•	•			•	•		•	•	•	•						•	
Is it common practice for advisors to receive excess compensation (higher commission, gifts, etc), either monetarily or through awards, for selling specific funds?		10																								
	This practice is not allowed.		100%	0																						
	This practice is allowed under strict regulation to protect investors.		75%	5			•					•					•	•								•
	These practices are regulated with little disclosure		50%	1									•													
	This practice is allowed and must be disclosed, but there is little oversight.		50%	2	•																				•	
	This practice is allowed, with little regulatory oversight and guidance.		0%	14		•		•	•	•	•			•	•	•			•	•	•	•	•	•		
Is it common practice to use sales contests to motivate the general sales of funds?		10																								
	This practice is not allowed.		100%	3							•						•								•	
	This practice is allowed under strict regulation to protect investors.		50%	3			•					•						•								
	This practice is allowed, with little regulatory oversight and guidance.		0%	16	•	•		•	•	•			•	•	•	•			•	•	•	•	•	•		•
In the leading national or financial newspaper, is there typically an article on mutual funds?		10																								
	There are articles on fund investing almost daily		100%	7			•	•				•								•			•	•		•
	There are articles on fund investing at least weekly.		100%	12	•	•			•	•			•	•	•	•	•	•				•			•	
	There are occasionally articles on fund investing.		50%	3							•								•		•					
	There are rarely articles on fund investing.		10%	0																						
When the media covers a fund, are the fund's costs noted, and will the author comment that they are high, if indeed they are high?		10																								
	Almost always.		100%	2			•						•													
	Sometimes.		50%	8		•		•				•		•	•	•		•	•							•
	Almost never.		0%	12	•				•	•	•	•					•			•	•	•	•	•	•	

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Sales & Media

Question	Answers	Question weight	Answer weight	Respondents	AU	BE	CA	CN	FR	DE	HK	IN	IT	JP	NL	NZ	NO	SG	ZA	ES	SE	CH	TW	TH	UK	US
Do media promote long-term investing by emphasizing a fund's longer-term history (at least three years), and by pointing out the difficulty in evaluating manager records over less than a full market cycle?		10																								
	Almost always.		100%	2															•							•
	Sometimes.		50%	13			•	•	•	•	•			•	•		•	•		•	•		•			
	Almost never.		0%	7		•						•	•			•						•		•	•	
Do investors tend to favor substitute products over mutual funds?		0																								
	ETFs are preferred.		100%	0																						
	Closed-end funds are preferred.		100%	0																						
	Insurance products, including structured products, variable annuities, and guaranteed funds are preferred over open-end mutual funds.		100%	10		•			•	•	•	•	•	•					•		•				•	
	Other fund structures including collective investment trusts and private pension funds are preferred.		100%	0																						
	No, fund investors prefer traditional open-end mutual funds.		100%	12	•		•	•							•	•	•	•		•		•	•	•		•
Do mutual funds require investment minimums?		5																								
	Nearly all have strict investment minimums.		25%	3							•			•										•		
	Most funds have investment minimums, but these are frequently waived or significantly reduced for investors who enroll in an automatic investment plan.		70%	12			•	•		•		•	•			•	•	•	•			•			•	•
	Most funds have minimums, but platforms offer lower minimums, and so do automatic investment plans.		50%	2	•																		•			
	Funds rarely have investment minimums.		100%	5		•			•						•					•	•					
Of funds available for sale in the country with investment minimums, what is the median investment minimum?		5																								
	Less than 500.		100%	5				•	•			•		•										•		
	Less than 1000.		90%	2			•												•							
	Less than 1500.		75%	4		•				•						•										•
	Less than 2000.		50%	3									•					•					•			
	2000 or higher.		25%	8	•						•				•		•		•		•	•			•	
Of funds domiciled in the country with investment minimums, what is the median investment minimum?		10																								
	Less than 500.		100%	12		•		•	•	•		•		•	•					•	•	•	•	•		
	Less than 1000.		90%	4			•						•					•	•							
	Less than 1500.		75%	1																						•
	Less than 2000.		50%	2												•	•									
	2000 or higher.		25%	3	•						•														•	

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Sales & Media

Question	Answers	Question weight	Answer weight	Respondents	AU	BE	CA	CN	FR	DE	HK	IN	IT	JP	NL	NZ	NO	SG	ZA	ES	SE	CH	TW	TH	UK	US
Approximately what percentage of funds is sold through an open architecture system (a distribution system in which options come from multiple fund families)?		10																								
	More than 80%.		100%	8	•			•				•		•				•					•		•	•
	More than 50%.		80%	6			•				•		•		•	•						•				
	More than 20%.		50%	4					•	•									•		•					
	Less than 20%.		0%	4		•											•			•				•		
Which fund-distribution channels are widely available for investors? Choose all that apply.		10																								
	Fund supermarket/online brokerage—Open-architecture platform with hundreds or thousands of fund choices available from many investment managers.		20%	21	•	•	•	•	•	•	•	•	•	•	•		•	•	•	•	•	•	•	•	•	•
	Independent advisors—Offer full investment advice and advise clients to funds with which they have no affiliation.		20%	12	•		•		•	•		•				•	•	•	•			•			•	•
	Traditional brokerage-commissioned salesperson offering funds from multiple fund families.		20%	15	•		•		•			•		•	•	•		•	•		•	•	•	•	•	•
	Bank or insurance company—Offers primarily funds affiliated with the distribution company.		20%	22	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
	Direct from the fund—Only offers funds managed by an affiliated firm, at no commission.		20%	14	•		•		•			•		•	•	•	•		•			•	•	•	•	•
Do any distribution choices dominate the fund marketplace?		5																								
	Nothing dominates.		100%	3				•											•			•				•
	Dominating choice(s) are characterized by low-fees, open-architecture options.		80%	11	•		•			•	•	•			•	•		•				•	•		•	
	Dominating choice(s) is characterized by high-fees or closed-architecture.		50%	8		•		•					•	•			•			•	•			•		

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