Global Fund Investor Experience
2013 Report

MORNINGSTAR

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Executive Summary

The Global Fund Investor Experience report was designed to encourage a dialogue about global best practices for mutual funds from the perspective of fund shareholders. This biennial report measures the experiences of mutual fund investors in 24 countries in North America, Europe, Asia, and Africa. Morningstar researchers evaluated countries in four categories—Regulation & Taxation, Disclosure, Fees & Expenses, and Sales & Media—with greater weight given to factual, empirical answers as well as the high-priority issues of fees, taxes, and transparency.

Key Take-Aways

- Investors in the United States are treated the best, while South Africans face the most difficult fund investing environment.
- Commission bans are spreading around the world. By mid-summer, Australia and the United Kingdom will have restricted commissions with more in the pipeline. This will prevent many conflicts of interest, but it is still to be seen if investors will fare better with fewer avenues to pay advisors.
- Despite the comparable size of the UCITS market to the U.S. fund market, investors in Europe (and other countries where UCITS are sold) do not receive the economies of scale that benefit U.S. investors with lower fees.
- The United States is one of only a handful of countries where fund investors are responsible for annual taxes on capital gains earned by funds.
- Funds in most countries continue to treat the names of portfolio managers as trade secrets. Investors have no way to determine if the current manager is responsible for a fund's success or failure.
- To coincide with UCITS IV implementation, we've expanded the importance and depth of our point-of-sale document evaluation.
- Thailand falls from an A- overall to a B because of the length and comprehensiveness of its simplified prospectus.
- South Africa falls below average in almost every area, failing Disclosure outright with an F.
- Australia and New Zealand do not require funds to publicly disclose full portfolio holdings, leaving investors to guess at the source of fund returns. Additionally, France, Korea, South Africa, and the United Kingdom only disclose full holdings to current owners. This lack of transparency is disappointing.

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Introduction

The *Global Fund Investor Experience* (GFIE) report was created in 2009 to encourage a dialogue about global best practices for mutual funds from the perspective of fund shareholders. This 2013 edition of the report, the third in the series, covers 24 countries, with Korea and Denmark making their GFIE debuts.

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

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

This report considers publicly available, open-end funds. The next edition of the GFIE report will include exchange-traded funds. This report, however, concerns retail registered investment pools that are not listed on an exchange. The pools do not carry insurance features and generally issue or redeem shares on a daily basis. Open-end funds have a variety of names, depending upon the country, including: Mutual Funds, Investment Companies, Unit Trusts, and SICAVs. For the purpose of simplicity, they are called "mutual funds" or just "funds" in this report. The GFIE report does not evaluate the investor experience of other pooled investment vehicles, for example, guaranteed funds, variable annuities, insurance-linked funds, private pension funds, closed-end funds, collective investment trusts, hedge funds, private-equity funds, venture-capital funds, institutional funds with limited distribution, and, as mentioned, ETFs.

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Overall Scores

The GFIE report evaluates each country from four perspectives: Regulation & Taxation, Disclosure, Fees & Expenses, and Sales & Media. For each topic, Morningstar grades a country on the A to F scale. Each country's four topic grades are then combined to form an overall grade. In Morningstar's view, while none of the GFIE's 24 countries can claim universal best practices, it is also true that none fails outright in providing a home for prospective fund investors.

The highest-scoring country, in this report as well as the two previous editions, is the United States, which receives the top grade of A. The United States is not a leader on Regulation & Taxation, earning only a middling score for that section, but U.S. disclosure is clearly the world's best, U.S. fund expenses are the world's lowest, and the country's media do a fine job of emphasizing a long-term perspective and low costs.

A new entrant to the survey, Korea, comes in with an above-average grade of B+. Funds in Korea are required to disclose the name of the portfolio manager along with their prior three years' experience. Additionally, Korean investors face a favorable tax regime.

Several countries come next with overall grades of B. They get there via several paths. The East Asian entrants, Taiwan, Thailand, and Singapore, have favorable tax regimes and thus score well for Regulation & Taxation. The Netherlands garners a B with slightly better Disclosure and Sales & Media practices.

Exhibit 1

Overall Scorecard

Source: Morningstar, Inc.

A	= United States								
A-									
B+	✲ Korea								
B	= Netherlands	↓ Singapore	= Taiwan	↓ Thailand					
B-	= China	✲ Denmark	↑ Germany	↓ India	↑ Norway	↑ Spain	= Sweden	↓ Switzerland	↑ U.K.
C+	↑ Australia	↑ Belgium	= Canada	= France	↑ Italy				
C	↓ Japan								
C-	↓ Hong Kong	↑ New Zealand							
D+									
D	↓ South Africa								
D-									
F									

Grade change indicators: ↑ Improved since last survey; ↓ Declined since last survey; = No change since last survey; ✲ New country.

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Most countries are graded at B- or C+. Almost all European countries land in this range, with only small differences occurring between markets. The Undertakings for Collective Investments in Transferable Securities directive (UCITS; recently updated to the fourth revision known as UCITS IV) and the Markets in Financial Instruments Directive (MiFID) ensure that fund regulations, disclosure, and marketing meet minimum standards across the continent. Different European countries have stronger investor practices in differing areas, but in general investors fare equivalently. India is average in most areas but distinguishes itself with required monthly disclosure of a fund's portfolio. The other countries receiving average grades, including Australia, Canada, and China, are more distinctive. Australia has low-cost funds and a robust distribution model but is poor at disclosure. Canada does well across the board but is hampered by having the world's highest total expense ratios. China, too, fares well in most areas but is hampered by one weakness—in its case, the restrictions it places on both funds and shareholders in purchasing foreign securities.

Landing at the bottom are Japan with a C, Hong Kong and New Zealand with C- grades, and South Africa at a D. It is no coincidence that none of those countries are in Europe; if they were, and were therefore subject to pan-European practices and legislation, they would most likely be pushed up to average grades. South Africa earns its lowest-rank status primarily through its poor disclosure practices.

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Regulation & Taxation

For the Regulation & Taxation section, Singapore has the top score and Australia the lowest score. Notably, the highest-scoring overall country, the United States, fares relatively poorly for Regulation & Taxation, earning only a C grade, barely above the lowest score. Also worth noting is that in the two years since Morningstar last published this study, New Zealand has begun a process to reevaluate all securities regulations pertaining to funds. These efforts are gradually appearing in New Zealand's grade, which will likely be even higher in the next GFIE report.

In Morningstar's view, the best regulatory practice is to have a single regulator that is independent of the fund industry. The regulator is responsible for overseeing the management, disclosure, operations, and distributions of all types of investment funds. As an independent entity, the regulator does not face the conflicts of a self-regulatory body, which must balance the desires of the industry with the need to protect investors. Having a single regulator rather than multiple regulators, and having this single regulator oversee all investment funds, helps to reduce the cost of regulation and simplifies the message to fund companies.

Additional best practices include adequate staffing, public disclosure, and stability. Adequate staffing is needed so that the regulator can pursue infractions as needed and can be proactive in addition to reactive. Public disclosure of the regulator's actions serves two purposes. First, it discourages malfeasance by deterring similar violations. Second, it gives the investing public the confidence that it is aware of all industry issues—nothing is being hidden from view. Finally, stability helps to

Exhibit 2

Regulation & Taxation Scorecard

Source: Morningstar, Inc.

A	= Singapore						
A-							
B+	↓ Hong Kong	✲ Korea	↑ U.K.				
B	↑ Canada	↑ Japan	↓ Spain	= Switzerland	= Taiwan	= Thailand	
B-	↓ Belgium	↓ France	= Germany	↑ India	= Netherlands	↓ Norway	↑ South Africa
C+	✲ Denmark						
C	↑ China	↓ Italy	↑ New Zealand	↑ Sweden	↓ United States		
C-	↑ Australia						
D+							
D							
D-							
F							

Grade change indicators: ↑ Improved since last survey; ↓ Declined since last survey; = No change since last survey; ✲ New country.

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ensure compliance—if the rules are well-known, they are likelier to be followed. Regulations need to be updated in a timely fashion to handle emerging portfolio management techniques and changes in the marketplace, but the alterations should not be too frequent.

Most countries in the GFIE report are served by a single regulator. Oddly enough, two of the highest-scoring countries in most other aspects, the United States and Canada, have the disadvantage of multiple regulators. Most countries struggle to update their regulations to address new portfolio management techniques. When they do make changes, they don't always do so with composure. For example, in Europe, many observers—including Morningstar—believe that the ongoing regulatory changes have been coming too rapidly for the industry and investors to digest fully.

As a general rule, Morningstar finds that regulatory enforcement is comprehensive across the globe, but not proactive. The weakest regulatory regimes are in Denmark, New Zealand, Sweden, and South Africa. In about two thirds of countries all regulatory actions are disclosed to the public, but in Australia, Thailand, Belgium, Denmark, the Netherlands, and the United Kingdom only major actions are disclosed. For the most part, fund advertising is well-regulated across the globe, but Danish practices are a concern.

Moving from the actions and structure of the regulator to issues controlled by fund companies, Morningstar believes that both fund auditors and fund custodians should be completely independent of the fund companies that they serve. In the global marketplace, that holds true for auditors but not for custodians, as more than half the countries in the GFIE report permit the management firm and fund custodian to share common ownership.

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

Once again, the otherwise strong U.S. market is an exception for this regulatory item. The United States is the only country in the GFIE report where fund companies commonly use soft-dollar arrangements and which does not have regulation or a regulatory body overseeing such arrangements. (The CFA Institute, which governs Chartered Financial Analysts, fills some of this gap with a code of conduct that mandates that all CFA charterholders use soft-dollar arrangements only if they benefit investors.) In contrast, all European countries subject to the Markets in Financial Instruments Directive (MiFID) are subject to soft-dollar rules limiting their use to research benefiting investors.

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Independent boards of directors are still uncommon in funds, with only a third of countries requiring a minimum level of independence. Only in India are independent directors required to be a majority of the board.

Morningstar's position on taxes is the same as its take on soft-dollar arrangements: Less is more. The lower an investor's tax bill, the higher that investor's return. This stance should not be interpreted to mean that Morningstar believes that a country should adopt a low-tax government rather than an administration that charges higher taxes. Morningstar has no view on a country's optimal tax policies. Rather, looking at the matter solely from the perspective of a fund investor, a lower tax rate is better, and tax incentives that reward long-term investing are better. Thus, the GFIE report evaluates taxes only from the perspective of the mutual fund investor.

Ideally, the fund investor would pay no taxes at all. Of the 24 countries in the GFIE report, Singapore (completely) and Hong Kong (virtually) meet this standard. The remaining 22 countries do levy taxes on fund investors but typically ease the burden by offering tax breaks for long-term fund owners. In fact, Thai investors investing in long-term (five-year) equity funds can receive a tax credit that more than offsets ongoing taxes.

The second-best policy is to exempt the fund shareholder from taxes until the fund is sold. That is, income, capital gains generated by the fund's trades, and internal capital growth from appreciation in the fund's securities would all be immune from taxes as long as the shareholder retains the fund (or alternatively, until the shareholder reaches retirement age). Japan (completely) and Spain (virtually) among the GFIE report countries adopt such an approach.

Next in attractiveness is to exempt fund investors from capital gains while they hold a fund, but to tax a portion or all of the fund's income. Many countries have variations of this policy.

Other tax features that assist fund owners include dividend imputation, where investors only pay taxes on the difference between their personal tax rate and the tax rate that the corporation has already paid through its corporate taxes; applying an inflation index to capital gains taxes; and having the capital gains rate decline over time to reward investors for holding securities longer. Finally, many countries establish tax-protected retirement or long-term savings accounts that are under different tax regimes than are standard fund accounts.

In measuring the overall attractiveness of a country's tax policy toward fund investors, Morningstar calculated the tax effect on a hypothetical investment that is held for five years. The portfolio consists of 60% in equity funds and 40% fixed-income funds, for a married couple with a combined income of USD 100,000. If the country offers a type of fund account that offers additional tax protections for an investor with a five-year time horizon, then that account was used for the exercise.

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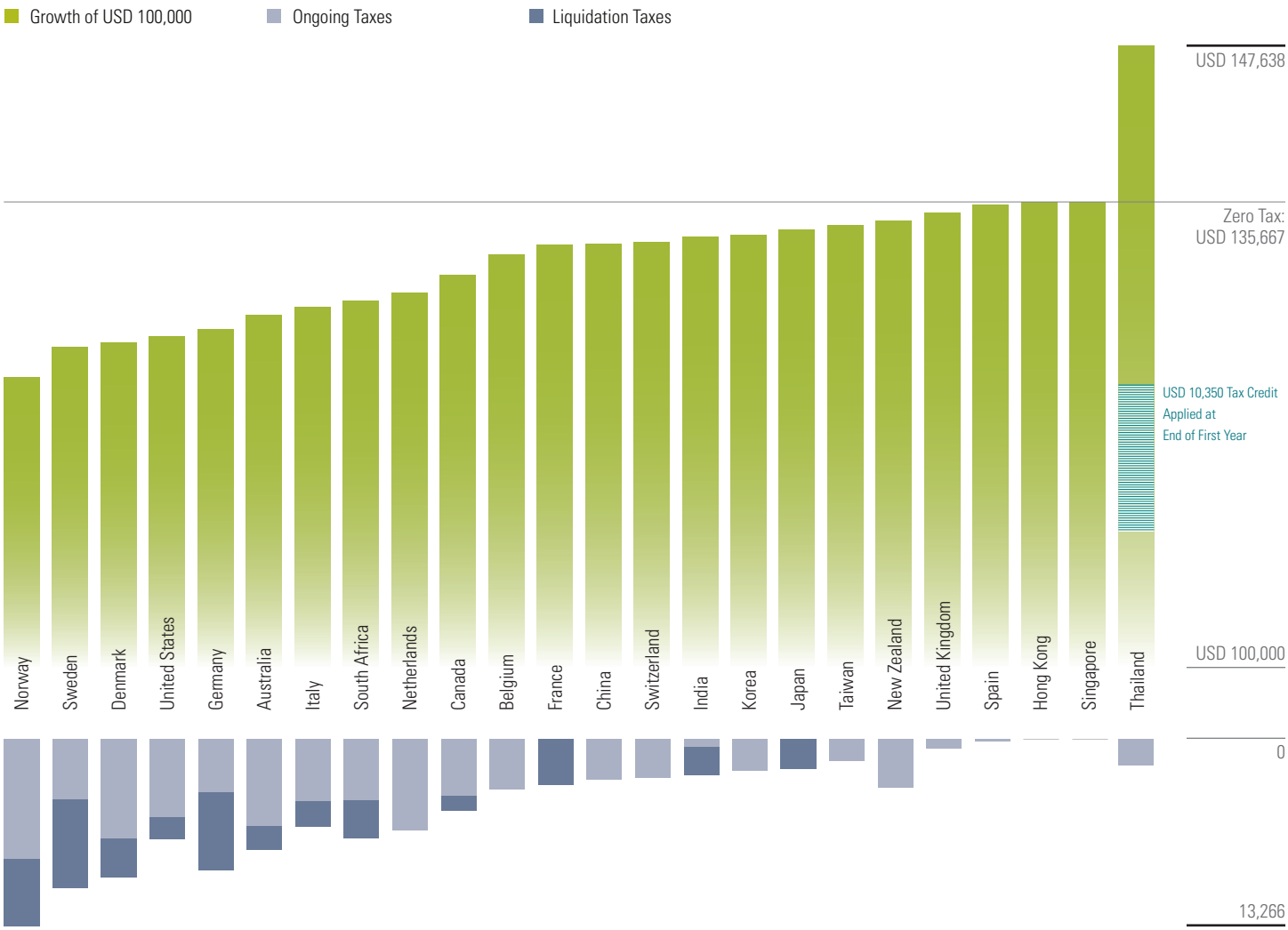
The calculations of course are affected by the assumptions about the holding length, the portfolio assets, the income, and whether the subject is married or single. Nonetheless, the results are reasonably robust in that the rank order of countries tends to be fairly consistent no matter which assumptions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

Overall, Thailand, Hong Kong, and Singapore have the best tax systems for fund investors, and Norway, Sweden, Denmark, and the United States have the least attractive aftertax returns.

Exhibit 3

Effect of Taxes on Hypothetical Investment Portfolio

Source: Morningstar, Inc.



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Disclosure

With Disclosure, the United States receives the only A. With the exception of Taiwan's B+, no other countries receive a grade above a B. South Africa, Hong Kong, Australia, and New Zealand lag behind most of the world with low levels of disclosure.

Disclosure begins with a fund's initial document—the prospectus. The best practice for prospectus disclosure is to have a short-form offering document, or simplified prospectus, so that prospective investors can see a fund's costs, risks, and investment strategy in a form that is easily and quickly comprehended. Ideally, the document will cover a single fund rather than a collection of funds—after all, the goal of the simplified prospectus is to be simple, rather than cumbersome. The short-form version should be no more than 10 pages in length, ideally five pages or less. Its writing style should be in plain language and avoid investment jargon as much as possible. Information about the fund's risks and investment strategy should be specific to the fund and should avoid using generic, boilerplate language that could apply to almost any fund in existence.

A critical item in both the simplified prospectus and the full version of the document is the presentation of the Total Expense Ratio (TER). As annual expenses are arguably the most important item for a fund investor to consider, it is important that these figures be presented in a format that permits ready comparisons. Ideally, the fund will show several years' worth of TERs so that prospective investors can see whether these figures are trending up or down. Best practices also include translating the percentage costs of the TER into a monetary total on a hypothetical investment, so

Exhibit 4

Disclosure Scorecard

Source: Morningstar, Inc.

A	= United States								
A-									
B+	↑ Taiwan								
B	↑ Belgium	↓ Canada	↓ China	✲ Denmark	✲ Korea	↑ Netherlands	= Singapore	↑ Spain	↓ Sweden
B-	↑ Germany	↓ India	↑ Norway	= Switzerland	↓ Thailand				
C+	↑ France	↑ Italy	= Japan	↓ U.K.					
C									
C-									
D+	↑ Australia								
D	↑ New Zealand								
D-	↓ Hong Kong								
F	↓ South Africa								

Grade change indicators: ↑ Improved since last survey; ↓ Declined since last survey; = No change since last survey; ✲ New country.

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that investors realize what the somewhat abstract percentage figures mean when converted into actual currency costs.

Nearly all countries have uniform TERs that meet International Organization of Security Commissions (IOSCO) definitions. However, Hong Kong, New Zealand, and South Africa still have room for improvement with regard to presenting fees in a uniform manner. Another potential area of confusion is acquired fund fees. Investors must be careful about which TER they look at, and they must be aware of what is included in that figure. UCITS IV in Europe has introduced the concept of Ongoing Charges, which should include acquired fund fees (and performance fees), but the specific application on inclusion of these expenses is still unclear. In the United States, the prospectus expense ratio includes acquired fund fees but the shareholder report TER does not.

Starting in the second half of 2013, both Canada and Australia are phasing in shareholder statements that itemize additional shareholder expenses. Australia's statements will itemize all fees paid to the advisor directly from the investor, coinciding with a ban on payments from the fund to the advisor. Canada's new fee disclosure will include all fees paid directly in loads or indirectly through trail commissions received by advisors or fund platforms. These standardized disclosures will enhance the information around components of TERs and other shareholder costs. These disclosures are also commonly provided in the United States for certain distribution channels although not in a standardized format.

Other important features of a prospectus (simplified or otherwise) are information about trading costs, standardized total returns for various time periods, the names and tenures of the fund's portfolio manager(s), summary information about the fund's portfolio holdings, and the portfolio management team's compensation and incentives. Trading cost information in the form of brokerage commissions and/or a turnover ratio is fairly common, as is the presentation of total returns. Data about the fund's managers and investment holdings are less common. As for compensation information, only the United States provides that.

No countries fully hit the mark for simplified prospectuses. Only about two thirds of the countries in the survey require that the simplified document only contain the individual fund being offered. Most countries manage to keep their simplified prospectuses at an appropriately short length, but Canada, China, Korea, New Zealand, and Thailand do not. All countries do succeed in communicating through plain language.

Overall, the best simplified documents are in Korea (despite their length) and the United States. The weakest are found in New Zealand. Hong Kong and South Africa are special cases, as they do not have documents that qualify as simplified versions.

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With both prospectuses (simplified and regular) and shareholder reports, best practices suggest that all retail investment funds should have the same format and rules for disclosure regardless of fund type. That is, in addition to the open-end mutual funds covered by the GFIE report, closed-end funds, exchange-traded funds, insurance funds, and other fund types not found in this report should also be treated in a similar fashion. Doing so increases comparability for investors, so that they can evaluate investments that span different fund types. It also simplifies compliance for fund companies.

The global record for this practice is mixed. In Europe, the Key Investor Information Document requirement ensures that all UCITS products disclose the same information in the same format, and the Markets in Financial Instruments Directive (MiFID) provides further comparability and protections. In the United States, all funds registered under the Investment Act of 1940 are subject to identical reporting, but other types of funds can be offered under municipal, employment, commodities, or insurance regulations that are subject to slightly different disclosure rules. In other countries, only open-end products are subject to these specific disclosures, with ETFs having completely separate disclosure requirements, although ETFs and open-end funds are substitutes.

With shareholder reports, as opposed to prospectuses, the two key issues are the disclosure of portfolio holdings and management's discussion of performance.

Ideally, complete portfolio holdings are published monthly in a centralized electronic format, one that makes it easy for either a retail investor or an institution to quickly locate and gather the information. (Prospectuses and financial statements should also be centrally and electronically filed.) It is acceptable that these portfolio holdings be published with a lag time, although the success of ETFs that show their holdings in real time suggest that fund-company fears that disclosing such holdings would hurt their trading results are overstated. The statement of investments should include all long, short, and derivative positions.

Presently only India requires investor disclosure monthly, although in practice most funds in Denmark and Norway and about three fourths of U.S. funds provide monthly holdings to institutions that request such data. On the flip side, Australia and New Zealand still do not have regulations in place requiring portfolio information, and funds in Korea are required to provide monthly holdings to the regulator but not to the investing public. Only Canada, China, and the United States require publication of portfolio managers' names and tenures. However, in practice funds in a large number of countries do volunteer the manager names, if not tenures.

As for management's discussion of performance, over two thirds of the countries in the GFIE report require inclusion of such material. However, in only five counties does Morningstar regard the discussion as being consistently specific to the fund, as opposed to being a generic summary of the economy and market conditions. Australia, Korea, and Switzerland are the only countries in the survey where a discussion is neither required nor typically provided.

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Fees & Expenses

For Fees & Expenses, the highest-scoring country (that is, the country with the lowest costs) is the United States, while the lowest-scoring country is Canada. This pattern has held true for all three editions of the GFIE report, as fund costs tend to be very stable over time.

Along with Disclosure, Fees & Expenses is the most heavily weighted section of the GFIE report, making up 30% of a country's overall grade. Many studies by Morningstar and others have demonstrated that the most consistent predictor of a fund's net performance is the level of its annual expenses. Clearly, the best practice from an investor's viewpoint is to have access to—and purchase—funds that have low annual costs.

In addition to annual expenses, funds sometimes levy charges in the form of either front-end load charges, which are sales commissions paid at the time of purchase of a fund, or deferred loads that are paid when the investor exits a fund. These charges were never the most important costs to long-term investors, and they're rapidly becoming even less important as more countries move away from load shares and as loads are negotiated or waived. As for deferred sales charges, they were once very popular in the giant U.S. market but have fallen steeply out of favor, with many fund companies shutting down the share classes that charged deferred loads.

Specifically, in one third of countries front loads are fixed on a specific breakpoint schedule, giving investors little room to negotiate price. In Belgium, China, France, and Japan, loads are legally

Exhibit 5

Fees & Expenses Scorecard

Source: Morningstar, Inc.

A	= United States					
A-	↓ Australia	↓ Thailand				
B+						
B	↑ India	✲ Korea	↑ Norway	↑ Sweden		
B-	= China	✲ Denmark	↑ France	↓ South Africa	↑ Spain	↓ Switzerland
C+	↓ Germany	↓ Netherlands	↑ Taiwan			
C	↓ Belgium	↑ Hong Kong	↓ New Zealand	= Singapore	= U.K.	
C-	↑ Italy					
D+	↓ Japan					
D						
D-						
F	= Canada					

Grade change indicators: ↑ Improved since last survey; ↓ Declined since last survey; = No change since last survey; ✲ New country.

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negotiable, but in practice retail investors lack the power to negotiate a better deal. Instead, the benefits go to institutions. In the remaining half of the countries front-end loads either do not exist (rare) or are widely and commonly negotiated away by retail investors.

One of the difficulties in comparing annual expense ratios across countries has been the development of unbundled fee arrangements, whereby an advisor is not paid a sales commission by the fund company in the traditional model but rather is paid a separate fee by the fund investor. When taken, this action has the effect of lowering official fund expense ratios since funds no longer need to collect money from shareholders to make advisor payments. It also has the effect of complicating expense-ratio comparisons, since the fact that the investor in a lower-cost fund may pay an additional fee to an advisor is not considered in Morningstar's calculations.

At the moment, this complication does not do much to distort the comparisons, as few markets have a significant amount of unbundled arrangements. The United States is the main exception, as both the presence of fee-based financial advisors and plan expenses for the large defined-contribution marketplace lead to situations in which a fund's stated expense ratio may not reflect the full cost of owning that fund. However, with India and the U.K. having recently adopted no-commissions policies and other countries considering such actions, the trend looks to be increasing.

In addition to ongoing, stable expense ratios, fund investors sometimes are charged performance fees that are based on the returns of the fund. Best practice for performance fees is for them to be symmetrical, so that a fund company is penalized for shortfall as well as rewarded for success. However, since few countries require that performance fees be symmetrical, few funds are constructed that way. After all, which fund company wishes to put its fees at risk? (It is instructive that in the United States, where performance fees are required to be symmetrical, performance fees are exceedingly rare.) Compounding the issue, many asymmetrical performance fees in the countries that allow them have been found to lack appropriate hurdle rates and high-water marks, further favoring the manager while hurting the investor.

The main scoring component for this section is the asset-weighted TER by country for four groups of funds: equity, fixed income, allocation, and money market funds. The calculations consider two perspectives: funds available for sale in the marketplace and funds that are locally domiciled. Thus, a country is measured both by the opportunity that it gives to investors in registering outside funds (available for sale) and by the costs associated with its own, domestically grown industry.

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Exhibit 6

Average Expense Ratio Ranges for Fixed-Income Funds, %

Source: Morningstar, Inc.



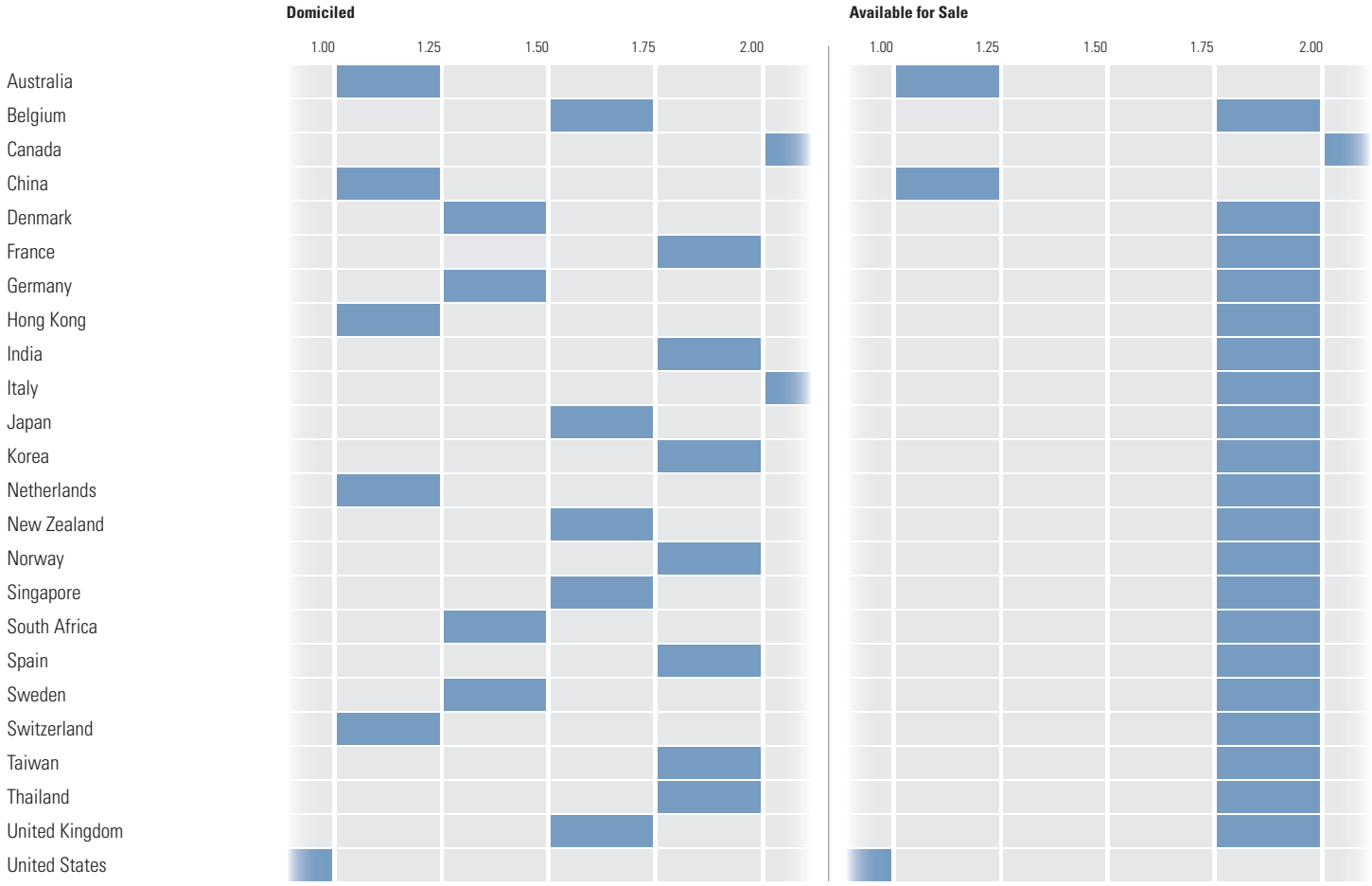
For fixed-income funds, the United States, Thailand, and Australia report the lowest fees, and Japan and Canada the highest. Interestingly, locally domiciled fixed-income funds are consistently less expensive than the full range of funds available.

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Exhibit 7

Average Expense Ratio Ranges for Equity Funds, %

Source: Morningstar, Inc.



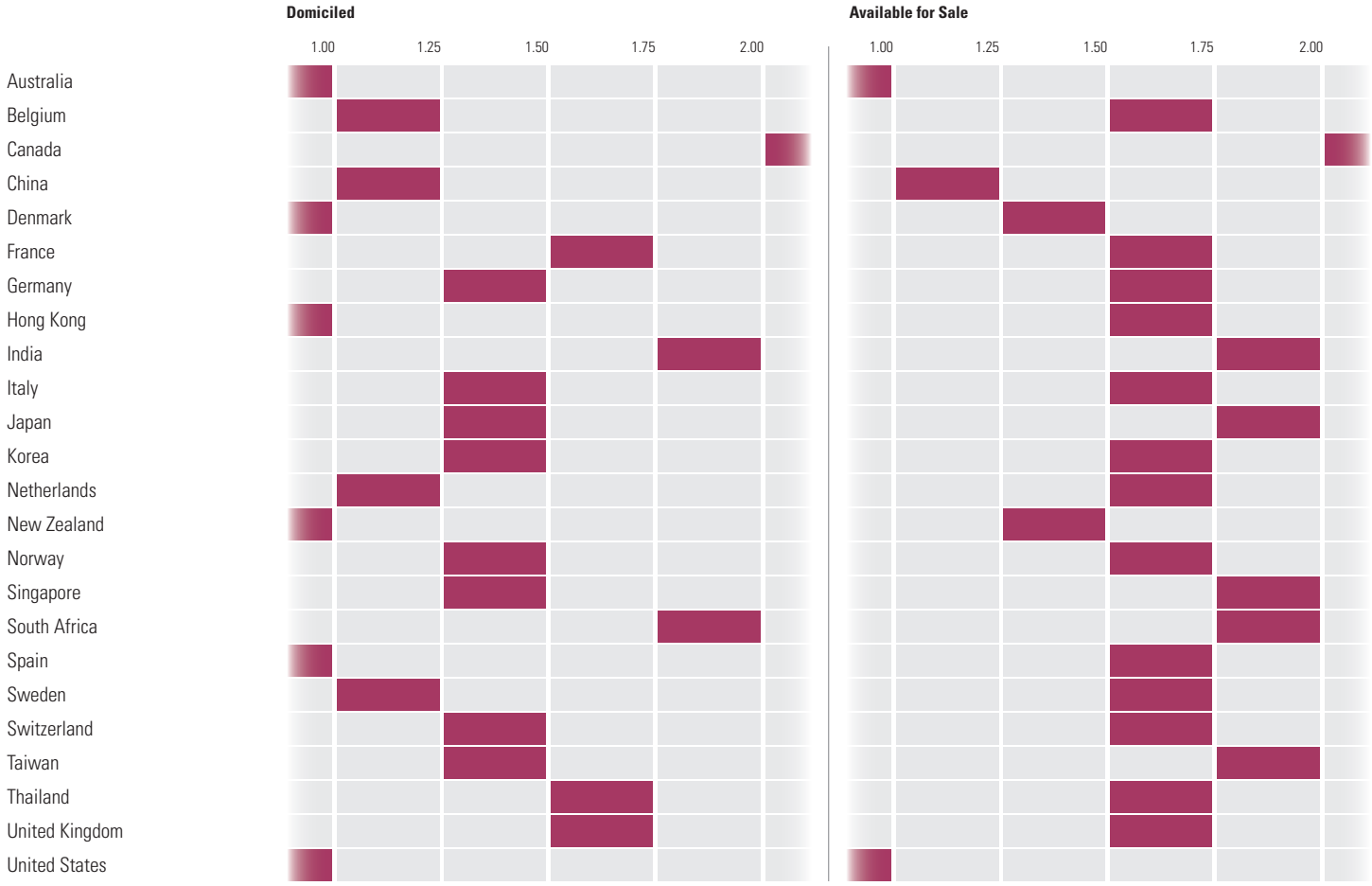
Fee levels for equity funds are higher than fixed income. Only the United States reports asset-weighted expense levels below 1%. Italy and Canada are the only countries with TERs of more than 2% on equity funds.

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Exhibit 8

Average Expense Ratio Ranges for Allocation Funds, %

Source: Morningstar, Inc.



With allocation funds, the United States is once again the lowest in cost overall, although allocation funds domiciled in Denmark are also cheap. Most countries fall between 1.25% and 1.75% for asset-weighted expenses for allocation funds, but Australia and the United States are cheapest at under 1%. Canada is the only country over 2%.

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Exhibit 9

Average Expense Ratio Ranges for Money Market Funds, %

Source: Morningstar, Inc.



With low short-term interest rates pervasive in many countries, this study has seen a decline in TERs on money market funds. Investors in France and the United States pay less than 0.20% for their funds, while investors in China pay just less than 0.80%.

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Notably, two neighboring markets that are closed to foreign funds are at the top and bottom of the spectrum for average fees paid. The United States, unlike the vast majority of countries in this survey, is marked by a large number of self-directed investors, economies of scale, a high level of price competition, a retirement tax preference that uses the same investments for tax-preferred investments, and one of highest percentages of assets paying an outside advisory fee not reflected in a fund's TER. Canada is on the opposite end for all those factors, plus Canada levies a consumption tax on fund management services.

One surprise in looking at global fund expenses was how little effect economy of scale seems to have on the result. Most funds are not designed to lower their management fees as their assets increase. At the country level, the huge U.S. marketplace shows the effect of economy of scale and competition, but otherwise there is little correlation between the size of a fund market and the costs of its funds. The very large pan-European UCITS marketplace does not seem to have led to reduced costs; indeed, small locally domiciled funds are often cheaper than giant Luxembourg- and Ireland-based funds. And the developing markets of Thailand and China have relatively low fees, despite being early in their industry histories.

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Sales & Media

The U.K., Canada, and Italy have the best investor experiences for Sales & Media, and Belgium, Spain, and Thailand have some of the worst.

From the perspective of the investor, the best sales practices are those that offer the most choice, and those in which the advisor is freest from conflicts of interest. Ideally, investment minimums for a fund or for a platform of funds will be relatively low, thereby permitting a broad range of investors to qualify. The latter generally holds true: Only five countries in the report have strict investment minimums that are not waived or reduced for an automatic savings plan, or based upon total purchases through a platform, but three of these countries have very low median minimums.

Choice can be measured by the number of distribution channels from which funds may be purchased. Potential distribution channels include banks, insurers, full-service brokerages, discount brokers, independent financial advisors, direct sales from a fund company, and online fund platforms. Some countries, such as the United States, have strong competition and wide availability across all channels. Other countries are limited to a few channels.

All countries report the availability of online fund platforms as well as distribution of funds through banks and insurance companies. In 17 of 24 countries, banks and insurance companies still dominate fund sales. This is a problem from the perspective of best practices as these sales channels

Exhibit 6

Sales & Media Scorecard

Source: Morningstar, Inc.

A	↑ U.K.					
A-	↓ Canada	↑ Italy				
B+	↑ Australia	↑ Taiwan	↓ United States			
B	= Netherlands					
B-	↑ China	↑ Germany	↓ Japan	✲ Korea	↑ New Zealand	↓ Singapore
C+	↓ France	↑ Switzerland				
C	= Hong Kong	✲ Denmark	↓ India	↓ Norway	= South Africa	↑ Sweden
C-						
D+	↑ Belgium	↑ Spain	↑ Thailand			
D						
D-						
F						

Grade change indicators: ↑ Improved since last survey; ↓ Declined since last survey; = No change since last survey; ✲ New country.

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tend to limit their choices to funds that are associated with the distributor and a select list of outside funds. In contrast, traditional and discount brokers and independent advisors tend to offer large fund lineups. Most countries in the GFIE report have half or more of their funds sold through partially or fully open channels, but Belgium, Denmark, Norway, Spain, and Thailand have relatively closed markets.

The main sources of conflicts of interest come when financial advisors receive payments for selling funds and the payments are not known by the investors. Examples include bonuses for increasing the general level of sales over a particular time period (thereby encouraging the churning of accounts), bonuses for selling a particular fund, or the encouragement from management to sell funds that come from the company that employs the advisor. Morningstar finds that sales contests to increase the general level of sales by advisors are permitted and unrestricted in most countries, but there are tighter controls on rewards for selling a particular fund.

Another sales consideration is whether advisors are required to consider alternative investments before making a fund recommendation. Many countries have an industry association code of conduct that requires such an action. The U.K.'s new Retail Distribution Review program (RDR) takes this one step further by formalizing this into an industry requirement. Australia's Future of Financial Advice (FOFA) requires that all advisors follow a fiduciary standard, placing investors' interests ahead of their own.

Finally, there is directed brokerage—the investor-unfriendly practice of steering a fund's trades to a particular brokerage firm in exchange for business that the brokerage firm will bring to the fund company. In most countries, directed brokerage is restricted by the same industry association regulations that restrict soft-dollar arrangements. However, China reports that while directed brokerage is an officially banned practice, it is believed to occur on occasion. In South Africa, directed brokerage is not formally restricted.

The media's treatment of funds is an important, although often overlooked, element of the investor experience. If the fund industry is regularly and widely covered, investors will have greater confidence that the nation's funds are a mainstream investment and that it is safe for them to own funds. Thus, regular and frequent media coverage of funds is a best practice. So too is emphasizing the importance of costs and of long-term performance. Media reports that focus on personalities and short-term performance leaders are not helpful.

In eight of the GFIE's 24 countries, the major financial media covers funds or the fund industry daily, while half of the countries report at least weekly stories. Only in Singapore and Sweden is the fund industry only irregularly covered by the mass media. Less happily, in one third of the countries the media rarely discuss fees, and in a significant number of countries they do not discuss long-term records but instead report on recent performance.

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Country Summaries

Exhibit 11

Index of Countries

Country	Page # Summary	Page # Details	Overall Grade / Change		Regulation & Taxation		Disclosure		Fees & Expenses		Sales & Media	
Australia	23	48	C+	↑	C–	↑	D+	↑	A–	↓	B+	↑
Belgium	24	55	C+	↑	B–	↓	B	↑	C	↓	D+	↑
Canada	25	60	C+	=	B	↑	B	↓	F	=	A–	↓
China	26	66	B–	=	C	↑	B	↓	B–	=	B–	↑
Denmark	27	71	B–	✲	C+	✲	B	✲	B–	✲	C	✲
France	28	76	C+	=	B–	↓	C+	↑	B–	↑	C+	↓
Germany	29	81	B–	↑	B–	=	B–	↑	C+	↓	B–	↑
Hong Kong	30	86	C–	↓	B+	↓	D–	↓	C	↑	C	=
India	31	90	B–	↓	B–	↑	B–	↓	B	↑	C	↓
Italy	32	95	C+	↑	C	↓	C+	↑	C–	↑	A–	↑
Japan	33	101	C	↓	B	↑	C+	=	D+	↓	B–	↓
Korea	34	106	B+	✲	B+	✲	B	✲	B	✲	B–	✲
Netherlands	35	111	B	=	B–	=	B	↑	C+	↓	B	=
New Zealand	36	116	C–	↑	C	↑	D	↑	C	↓	B–	↑
Norway	37	122	B–	↑	B–	↓	B–	↑	B	↑	C	↓
Singapore	38	127	B	↓	A	=	B	=	C	=	B–	↓
South Africa	39	132	D	↓	B–	↑	F	↓	B–	↓	C	=
Spain	40	137	B–	↑	B	↓	B	↑	B–	↑	D+	↑
Sweden	41	142	B–	=	C	↑	B	↓	B	↑	C	↑
Switzerland	42	147	B–	↓	B	=	B–	=	B–	↓	C+	↑
Taiwan	43	152	B	=	B	=	B+	↑	C+	↑	B+	↑
Thailand	44	157	B	↓	B	=	B–	↓	A–	↓	D+	↑
United Kingdom	45	162	B–	↑	B+	↑	C+	↓	C	=	A	↑
United States	46	168	A	=	C	↓	A	=	A	=	B+	↓

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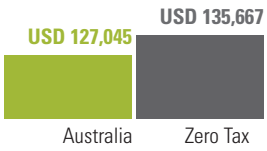
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Australia

Overall Grade
C+

Regulation & Taxation	C-
Disclosure	D+
Fees & Expenses	A-
Sales & Media	B+

Growth of USD 100,000



Average Expense Ratios, %

All Funds	
Fixed-Income	0.60
Equity	1.13
Allocation	0.96
Money Market	0.50

Australia's overall grade is an average C+. Australian investors enjoy low costs, which are a major benefit, and have good sales and media practices. The country's weak disclosure practices and high tax rates are two major drawbacks, and offset some of the strengths in fees.

Regulation & Taxation

Australia scores below average in Regulation & Taxation. Australian investors suffer some of the highest investment taxes of any country in the survey. It is one of only a handful of countries in which capital gains are passed through to fund investors annually, rather than deferred, and accumulated in the gains in the fund share price. Fund investors also pay consumption taxes on the service of investment management. In the area of regulation, we observe that Australia regularly updates regulations but that not all regulatory sanctions are disclosed to the public.

Disclosure

Australia has major problems with Disclosure. Critically, investors do not have access to the very basic item of portfolio holdings. Australia is the last country in this survey without any form of portfolio disclosure presently or in proposed regulations. With global best practices being mandatory quarterly disclosure, Australia is very far from the mark. Also, Australia's product disclosure statement misses some marks as a simplified prospectus. The document lacks standardized returns and poorly describes the investment strategy and risk of the fund. Lastly, nowhere in the disclosure is portfolio manager information available. In this respect Australia is no worse than most countries, but it is still an area for improvement.

Fees & Expenses

Australia fares very well with respect to Fees & Expenses. Australian equity, allocation, and fixed-income funds are some of the least expensive globally, with only the much larger United States charging consistently lower Total Expense Ratios. Money market funds fare worse and are higher in cost than the global average.

Sales & Media

Australia's Sales & Media practices are strong. Open-architecture platforms with funds from a variety of sponsors dominate fund sales in Australia, but there is a full variety of fund sales channels available for investors. We estimate that more than 80% of purchases come from a sales channel offering open or guided architecture. Future of Financial Advice regulations place a fiduciary standard on advisors, requiring advisors to place investors' interests ahead of their own. This protection is stronger than found in most of the world.

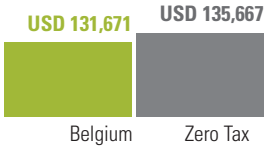
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Belgium

Overall Grade
C+

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

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.38
Equity	1.90
Allocation	1.64
Money Market	0.39
Domiciled Funds	
Fixed-Income	0.31
Equity	1.56
Allocation	1.18
Money Market	0.44

Belgium's overall grade is an average C+. Belgian investors face relatively lower expense ratios and adequate disclosure and government regimes. However, Belgian investors also invest within a captive, closed-architecture sales model that does not always benefit the investing public.

Regulation & Taxation

Belgium's regulations are consistent with the pan-European rules coming out of Brussels at a frenetic pace. Morningstar finds that while the changes are positive, there is some sentiment that they are too frequent for fund companies and investors to understand prior to implementation. The effect of pan-European rule changes at their current pace remains to be seen. Belgium also scores near average on taxation. Belgium's tax rates on dividends and income are higher than the survey average but are offset by an exemption on taxes for capital gains on shares held more than one year.

Disclosure

Belgium is in line with world averages on Disclosure, but investors would benefit from more-frequent portfolio disclosures that enable evaluation of managers' decisions. It would also be helpful for investors to know managers' names and start dates. Another area in which Belgium can improve is in costs disclosures. Currently Belgium does not require a monetary illustration of fund costs that would convert ratios into monetary terms so novices could see how much they are paying for services. Belgium could also improve its disclosure practices by requiring funds to annually update prospectuses as opposed to only requiring updates when the document is amended or changed.

Fees & Expenses

Belgium receives a C in Fees & Expenses because of the average-to-low costs of locally domiciled fixed-income and allocation funds. The investment universe of foreign-domiciled, Pan-European funds in Belgium is larger than the universe of domiciled funds, but these Pan-European products tend to be more costly than local funds. Morningstar has observed that most advisors in Belgium are compensated through asset-based commissions, either up front or through ongoing charges. It is important that investors have choices in how they compensate advisors, and it is especially important to have the option of avoiding embedded ongoing charges. Unfortunately, it remains difficult for Belgian investors to locate and purchase funds that do not have embedded advice fees in a trailing or up-front commission, and this contributes to Belgium's low grade in this section.

Sales & Media

Belgium receives a D+ in the area of fund Sales & Media practices. A large part of this grade is due to the closed architecture of the Belgian market. Banks and insurance companies dominate the sales of funds, and these companies tend to offer proprietary funds. Morningstar has observed that Belgian investors can easily buy funds from only two of the five main sales channels found throughout the world. The absence of choices is a weakness in Belgium.

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Canada

Overall Grade
C+

Regulation & Taxation	B
Disclosure	B
Fees & Expenses	F
Sales & Media	A-

Growth of USD 100,000



Average Expense Ratios, %

Domiciled Funds	
Fixed-Income	1.50
Equity	2.42
Allocation	2.15
Money Market	0.55

At a deceptively normal-looking C+, Canada's overall grade hides major strengths and weaknesses. On the positive side for fund investors, Sales & Media practices are excellent and Disclosure is very good. Unfortunately, these benefits are offset by annual expense ratios that are the highest in this survey.

Regulation & Taxation

Canada is slightly above average in Regulation & Taxation. In the Canadian Tax Free Savings Account, investors are allowed to save specific amounts tax-free. This counteracts taxes that do not otherwise favor mutual fund earnings over other income. For taxable accounts, Canada is one of just a few countries that require funds to pass through realized capital gains annually. This practice effectively treats fund investors similarly to investors in vehicles like stocks where the individual (as opposed to the fund manager) has control over reaping capital gains. Most countries encourage diversified savings through mutual funds by deferring fund gains, and sometimes income, until funds are sold. Also, unlike more than half the countries in this survey, Canadian investors pay full consumption taxes on the service of asset management.

Disclosure

Disclosure in Canada is investor-friendly. Although Canada falls short of best practices by publishing full portfolio holdings semiannually rather than quarterly, disclosure practices are otherwise positive. 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 report, Canada requires that funds divulge the names of their portfolio managers, although currently it does not require that their length of tenures be given.

Fees & Expenses

Canada fails in Fees & Expenses. Among the 24 countries in this survey, Canada has the highest annual expense ratios for equity funds, the second highest for bond funds, and the highest for allocations 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 funds that are typically sold without a front-end load is widely shared (although not by its southern neighbor, the United States). High consumption taxes on management services do not explain the differences in fees. Morningstar has found that, all things considered, Canadian fund investors pay up to 0.50% more in annual fund expenses per year than do investors in fund markets of a similar size elsewhere in the world.

Sales & Media

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

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China

Overall Grade

B—

Regulation & Taxation	C
Disclosure	B
Fees & Expenses	B-
Sales & Media	B-

Growth of USD 100,000



Average Expense Ratios, %

Domiciled Funds	
Fixed-Income	1.02
Equity	1.07
Allocation	1.05
Money Market	0.79

China's grade is B-, average within the survey. China's most attractive feature is its comprehensive disclosure. 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.

Regulation & Taxation

China earns its lowest grade in the area of Regulation & Taxation. 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. China is the only country in this survey without specific tax exemptions on investments for retirement, but this is not a large drawback as Chinese investors face no taxes on capital gains of fund shares and only moderate taxes on income.

Disclosure

Chinese Disclosure is generally thorough. Chinese funds report quarterly, with good discussions by managers of their funds' performances. Unusually, Chinese funds provide both the name and tenure of the fund's portfolio manager. 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.

Fees & Expenses

China is average in Fees & Expenses. China equity and allocation funds have the lowest expense ratios of any non-English-speaking country. However, its fixed-income and 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 & Media

Sales & Media practices in China 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.

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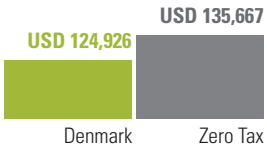
Denmark

Overall Grade

B—

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

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.15
Equity	1.90
Allocation	1.30
Money Market	0.42
Domiciled Funds	
Fixed-Income	0.64
Equity	1.43
Allocation	0.64
Money Market	0.42

Denmark has the average score of B-. Danish Fees & Expenses are about average when compared with those of other countries in this survey, as are regulations and tax policies. Disclosure scores slightly above average. The weakest area for Denmark is Sales & Media.

Regulation & Taxation

Denmark lands in the middle for Regulation & Taxation. Danish investors benefit from pan-European regulations and guidelines. One example is the requirement that soft-dollar arrangements be used to benefit the research of the fund (rather than other purposes such as entertainment). Other aspects of Denmark's regulations are less beneficial for investors. The regulatory organization is not always adequately staffed and does not always have the resources to proactively investigate improprieties. With regard to taxes, Danish investors face high rates on interest and dividends annually. These contribute to making Denmark's tax environment one of the least investor-friendly in the report.

Disclosure

Denmark's B grade in Disclosure reflects its general conformity with pan-European standards, with some slight improvements. One area in which Denmark-domiciled funds do excel is in the voluntary disclosure of portfolio holdings. More than 80% of funds managed in Denmark exceed regulatory requirements in providing investors and research firms with full portfolio holdings on a monthly basis. Fund manager information is also frequently given despite no requirement to disclose manager names or tenures.

Fees & Expenses

Demark has an average grade in Fees & Expenses. The annual expense ratios for funds domiciled in Denmark are noticeably lower than those for foreign funds marketed to Danish investors. Regulations do not prevent asymmetrical performance fees (that is, charging performance fees with no offsetting reductions in fees for underperformance), but this is also typical within the report.

Sales & Media

Denmark receives a C in Sales & Media. The media in Denmark does not regularly focus on fund costs, despite the availability of Danish funds that are much cheaper than most funds domiciled elsewhere in Europe. Morningstar also observes that it is very unusual for long-term investing to be discussed at all. The Danish fund market is characterized by closed architecture: Most funds are sold through the bank and insurance company channel and are proprietary to the firm selling the fund, thereby limiting choices for investors.

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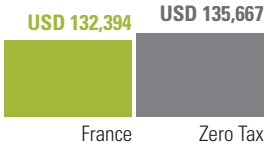
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France

Overall Grade
C+

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

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.09
Equity	1.85
Allocation	1.64
Money Market	0.17
Domiciled Funds	
Fixed-Income	0.62
Equity	1.77
Allocation	1.64
Money Market	0.16

France's overall grade is C+. In two areas, France earns an average grade of B-. However, the fact that funds provide only the regulator and not the public with full portfolio holdings brings down both France's Disclosure and its overall grade.

Regulation & Taxation

France is mostly in line with the survey norm in Regulation & Taxation. Exceptional areas are counteracted by areas that need improvement. Going further than most countries (which allow soft-dollar arrangements used for research), France prohibits soft-dollar arrangements altogether, discouraging potential conflicts of interest for funds. On a less positive note, France's lack of a comprehensive single statute to regulate the fund industry is a minus for investors. Other regulations are in line with the norm (as France adheres to UCITS rules and other pan-European regulations).

Disclosure

France fares the worst in Disclosure, as French funds are not required to provide full disclosure of portfolio holdings to the public. In contrast, most countries in this report adhere to the norm of providing full public disclosure of holdings at least semiannually. French funds do, however, disclose holdings fully to the regulator. As with other countries in the European Union, France requires funds to provide a Key Investor Information Document. The KIID does well in some areas, such as providing a clear explanation of risks and disclosing returns for standardized periods in maximum length of two pages. However, the KIID does lack potentially helpful information, such as a monetary illustration of fees and manager names and tenures.

Fees & Expenses

Fees & Expenses in France are neither high nor low for both locally domiciled and foreign-domiciled funds. The exceptions to this rule are expense ratios for money funds, which are generally lower than the average. Funds without loads or trailing commissions are widely available (which is beneficial to investors), and they have been adopted to such a point that they now constitute a moderate percentage of assets in France. Unfortunately, France follows common practice in allowing funds to charge performance fees without an offsetting reduction for underperformance. Furthermore, the terms of the performance fees are not always disclosed clearly in fund documents.

Sales & Media

France fares no better or worse than other countries in Sales & Media. As with other countries subject to pan-European regulations and guidelines, France prohibits the practice of directed brokerage. Regulations also prohibit advisors from receiving excess compensation for selling specific funds to investors, protecting investors from being sold funds inappropriate to their situation. The French market is characterized by a somewhat limited but adequate mix of distribution channels. The media in France almost never mentions fund costs and only sometimes promotes long-term investing, which is typical globally.

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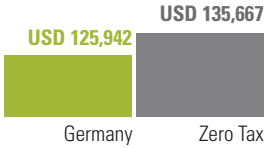
Germany

Overall Grade

B—

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

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.12
Equity	1.83
Allocation	1.64
Money Market	0.37
Domiciled Funds	
Fixed-Income	0.70
Equity	1.44
Allocation	1.38
Money Market	0.57

Germany's overall grade is an average B-. Germany gets an average score for Regulation & Taxation as well as for Sales & Media. Germany is quite close to the norm in other areas as well.

Regulation & Taxation

Germany's B- for Regulation & Taxation reflects its general adherence to pan-European regulations. Following the practice of most European countries, soft-dollar arrangements are allowed, but they must be disclosed. As is common across the survey, Germany requires funds to have a supervisory board, but it could improve by instituting a minimum level of independence for board directors. Another area for improvement is taxation policies. In the report's hypothetical fund performance and tax scenario, Germany has one of the lowest aftertax returns because of its high tax rates and the lack of exemptions and deferrals available in other countries. And while there are tax incentives to invest for retirement, the choices are limited and not as varied as investment options without tax incentives.

Disclosure

Germany's average Disclosure score also reflects generally average pan-European practices. As with other countries in the European Union, Germany requires funds to provide a Key Investor Information Document. The KIID is a concise two pages, written in clear language, and provides an explanation of risks that are specific to the fund. Areas for improvement for the KIID would be to add portfolio holdings, trading costs, and manager names and tenure. As far as changes specific to Germany, one possible improvement would be to require annual updates for prospectuses (as is standard for most countries). Currently, German funds are required to update the prospectus when there are changes, which in practice amounts to updates for only major changes.

Fees & Expenses

Germany's Fees & Expenses are about average for both locally domiciled funds and funds available for sale. Funds without loads or trailing commissions exist but are difficult for investors to locate, and they make up a minimal percentage of assets. Germany allows asymmetrical performance fees that charge more for overperformance without an accompanying reduction in fees for underperformance—not an investor-friendly practice. However, it is helpful for investors that the terms of performance fees are disclosed clearly in fund documents.

Sales & Media

Germany scores an average B- in Sales & Media. As is common in most countries in the survey, German funds tend to waive or significantly reduce investment minimums for investors who enroll in an automatic investment plan. The German media is also typical in sometimes emphasizing long-term investing and occasionally pointing out high fund costs. Like many countries, Germany prohibits advisors from receiving excess compensation for selling specific funds. Germany breaks from the norm in that less than 50% of funds are sold through an open-architecture system. Germany could improve by further opening its distribution system.

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Hong Kong

Overall Grade

C—

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

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.40
Equity	1.94
Allocation	1.73
Money Market	0.25
Domiciled Funds	
Fixed-Income	1.18
Equity	1.14
Allocation	0.81
Money Market	0.42

Hong Kong's fund industry doesn't deliver the best experience for investors. Morningstar's grade of C- reflects above-average investment costs and poor disclosure practices. The absence of virtually any taxes on fund investments somewhat offsets these weaknesses.

Regulation & Taxation

Regulation & Taxation is Hong Kong's strongest area, receiving a grade of B+. Hong Kong's virtually nonexistent taxes on fund investments greatly contribute to the above-average grade in this section. Another plus is that Hong Kong's government is effective at updating regulations and keeping up with changes in the fund industry. Less effectively, Hong Kong's fund industry is governed by multiple regulators, and different bodies can sometimes issue conflicting rules. Another weakness is the limited scope of investment choices eligible to receive retirement tax preferences.

Disclosure

Hong Kong's Disclosure requirements do not approach industry averages, let alone global best practices, earning Hong Kong a D- in this area. The full prospectuses, rather than the typical simplified prospectus that is more concise, remains the standard point-of-sale document. Any shorter documents consist mostly of marketing material that (while regulated) does not provide investors with the same information as a standard simplified prospectus. Unlike most other countries, Hong Kong does not institute the same disclosure requirements for mutual funds and other types of funds. Hong Kong funds also do not disclose fees in a uniform presentation or format, making it difficult for investors to compare costs across funds. Hong Kong's Disclosure is closer to the norm in other areas such as portfolio holdings, which are disclosed on the typical semiannual basis. Hong Kong fund documents also provide little information about managers, which, while unhelpful, is also a common shortfall among the countries in this report.

Fees & Expenses

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

Sales & Media

When it comes to Sales & Media, Hong Kong lacks regulations around advisor guidance and sales contests. On a more positive note, Morningstar has noted more recent mentions of long-term investing and the impact of high fees in the media. These improvements have been tied to changes to the government private retirement system.

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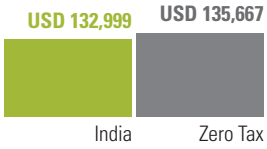
India

Overall Grade

B–

Regulation & Taxation	B-
Disclosure	B-
Fees & Expenses	B
Sales & Media	C

Growth of USD 100,000



Average Expense Ratios, %

Domiciled Funds	
Fixed-Income	0.89
Equity	1.93
Allocation	1.89
Money Market	0.30

With an overall grade of B-, India is average among countries in this survey. India's most notable features include required monthly portfolio holdings disclosure, and a prohibition on front loads. Unlike other countries with commission bans, India's only restricts entry loads; trail commissions, the least transparent advisor compensation, remain permitted.

Regulation & Taxation

India does not particularly stand out in the Regulation & Taxation category. The Association of Mutual Funds in India advocates ethics rules that soft-dollar arrangements be used toward the fund's research rather than for other purposes, such as entertainment. While this guidance in India does not have the force of law, regulations allowing soft-dollar arrangements while mandating that they be used toward research are typical within this survey. More unusually, India is one of only a handful of countries in this survey that continues to have capital controls limiting investors' ability to invest in foreign securities.

Disclosure

Disclosure in India has a few outstanding features but is lacking in others. On the outstanding side, funds in India provide investors with full holdings on a monthly basis rather than the typical semiannual basis. India is one of only three countries that hold this distinction. Furthermore, the point-of-sale documents are usually kept to concise length and include portfolio manager names. Investment strategies and risks found in fund documents, however, are typically generic and provide little useful information.

Fees & Expenses

Indian investors face average-to-expensive total expense ratios. This is despite a ban on performance fees, which is commendable and atypical among the countries in this survey. India has banned front loads, but other asset-based commissions remain, reducing incentives causing fund churn from advisors but leaving a potential conflict of interest due to hidden trail commissions.

Sales & Media

Sales & Media practices in India are slightly below average. Indian investors can choose from a variety of different distribution channels and over 80% of funds are sold through an open-architecture system. Advisors in India do not have to compare equivalent products or look at client suitability in order to meet fiduciary standards. Although this is unhelpful for the investor, it is also fairly typical among the countries in the report. The Indian media fail to help in increasing financial literacy, rarely promoting long-term investments and seldom mentioning fees when they are high.

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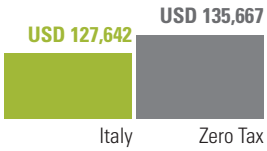
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Italy

Overall Grade
C+

Regulation & Taxation	C
Disclosure	C+
Fees & Expenses	C-
Sales & Media	A-

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.20
Equity	1.94
Allocation	1.66
Money Market	0.46
Domiciled Funds	
Fixed-Income	0.99
Equity	2.13
Allocation	1.49
Money Market	0.41

Italy receives an average overall grade of C+. Since the last study, Italy has updated its tax laws, no longer treating passive mutual fund shareholders like professional traders.

Regulation & Taxation

Despite the below-average grade of C for Regulation & Taxation, Italy's tax situation has improved in the past two years. Requiring passive investment fund shareholders to pay taxes on unrealized gains within fund portfolios—a highly unusual and punitive tax policy—has been done away with starting in 2012. Italy still taxes realized gains, treating fund investors as if they were direct investors in vehicles like stocks where the individual (as opposed to the fund manager) has control over reaping capital gains. Only a handful of countries do not allow fund investors to defer investment taxes until liquidation of the shares.

Disclosure

Italy's Disclosure is average and meets all of the pan-European minimum standards. These include providing the relatively informative, two-page Key Investor Information Document for all funds and updating shareholder reports on a semiannual basis. Italian funds also disclose all material positions in the full portfolio semiannually. Unfortunately, there is no section in which Italy is above average. As is the case in nearly every other country surveyed, it is rare for investors to see the names of the individuals managing fund portfolios or learn anything about the managers' tenures and compensation.

Fees & Expenses

Equity and fixed-income funds domiciled in Italy are more expensive than is typical around the world, leading to a below-average score for fees. Locally domiciled funds in these asset classes have Total Expense Ratios nearly double the least-expensive market's. Most other aspects contributing to the grade are typical and unremarkable. Following the common practice in most of the countries surveyed, Italy allows funds to charge performance fees with no offsetting fee reduction for underperformance but also requires funds to disclose the terms of the fees clearly in fund documents. Italy could possibly improve upon the grade by encouraging access to and education about funds without loads or trailing commissions.

Sales & Media

Italian Sales & Media practices receive an above-average grade. Unlike in most countries within this survey, the media in Italy commonly notes if the Total Expense Ratio is high, and fund costs have empirically been shown to be the best predictor of future performance. Additionally, advisors in Italy are required to consider similar products before making a recommendation. Italian investors can buy funds from a variety of sales channels, but advisors unattached to large financial institutions, and direct purchases from the fund company, remain rare.

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Japan

Overall Grade
C

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

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.51
Equity	1.84
Allocation	1.82
Money Market	0.85
Domiciled Funds	
Fixed-Income	1.39
Equity	1.57
Allocation	1.38
Money Market	0.33

Japan's overall grade is a slightly below-average C. Japan has average Regulation & Taxation policies, Disclosure requirements, and Sales & Media practices. Relatively high Fees & Expenses bring Japan's overall grade down to slightly below average.

Regulation & Taxation

Japan has a mix of good and bad Regulation & Taxation policies, with a slightly above-average overall score. Foreign funds are easily available to investors, and funds are not restricted in where they can invest geographically. Japan's taxes score slightly below average overall because of policies such a Value Added Tax applied on investment services.

Disclosure

Japan has a mix of good and bad practices when it comes to Disclosure. Japan's simplified prospectus is missing some key elements important for investors, such as fund performance and a clear explanation of risks specific to the fund. At a typical length of between five and 10 pages, the simplified prospectus also fails to meet best practices for conciseness. Japan does follow best practices for disclosure in other areas, such as requiring annually updated prospectuses and presenting trading costs in other fund literature. Japan is also particularly noteworthy in that it is the only country where funds typically provide monthly shareholder reports while funds in other countries typically provide only semiannual reports.

Fees & Expenses

Fees & Expenses in Japan are some of the highest in the survey when compared with funds available for sale in other countries. Another factor contributing to Japan's below-average grade here is the fact that sales loads are negotiable only for institutional investors. The fact that funds are permitted to charge performance fees for good performance (with no offsetting fee reduction for underperformance) also has a negative impact on the overall grade for the section.

Sales & Media

Japan follows average Sales & Media practices. Over 80% of funds in Japan are sold through an open-architecture system, which allows investors to have a variety of choices when purchasing funds. However, Japan also allows advisors to receive excess compensation for selling specific funds, which could set up a conflict of interest preventing advisors from recommending funds that are most appropriate for investors. Fund costs and long-term investing are sometimes but not always noted in the Japanese media.

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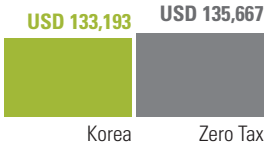
Korea

Overall Grade

B+

Regulation & Taxation	B+
Disclosure	B
Fees & Expenses	B
Sales & Media	B-

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.40
Equity	1.94
Allocation	1.67
Money Market	0.43
Domiciled Funds	
Fixed-Income	0.71
Equity	1.79
Allocation	1.41
Money Market	0.17

Korea's overall B+ grade reflects average to slightly above-average practices in each of the areas of this study, but there are still areas in which the investor experience could be improved. For example, Korea could improve Disclosure by requiring full publication of portfolio holdings to the public and increase investor choice by encouraging diversity of sales channels.

Regulation & Taxation

Korea's highest grade is in Regulation & Taxation. Korean investors benefit from fund regulations that are updated in a timely manner, and the government enforces these regulations effectively. Soft dollars must be used for research, although the research may be indirect and not specifically tied to an individual fund. Korea also fares moderately well on taxes; there are no capital gains taxes on passive investments in Korea.

Disclosure

Korea posts a slightly above-average grade in Disclosure. One strong feature is a monetary illustration of fees, which is generally provided in simplified prospectuses, even though that feature is not required. Portfolio manager information is also typically provided, albeit without tenure data. Korea could improve by providing holdings to the general public quarterly rather than providing full holdings to the regulator and only top holdings to the public.

Fees & Expenses

Fees & Expenses are somewhat better for investors in Korea than in other parts of the world. Korean investors generally do not face any performance fees. Few funds report charging front loads, but most advisors are still generally compensated through trailing commissions embedded in expense ratios. Locally domiciled fixed-income and allocation funds tend to have lower annual expense ratios than funds in other domiciles.

Sales & Media

Korea has Sales & Media practices that are no better or worse than those found in the rest of the world. Morningstar would like see more avenues for investors to purchase funds. Large financial institutions dominate fund sales, and while most offer funds from multiple providers, advisors at these institutions often have biases toward in-house funds. Other sales channels, such as direct sale via the fund company's website, are as of yet underutilized.

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The Netherlands

Overall Grade

B

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

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.25
Equity	1.90
Allocation	1.64
Money Market	0.43
Domiciled Funds	
Fixed-Income	0.75
Equity	1.19
Allocation	1.11
Money Market	0.43

With an overall grade of B, Dutch investors have an investment experience that is above average compared with other the countries in this survey. Average scores in Regulation & Taxation, Sales & Media, and Fees & Expenses are buoyed by a good score in the area of Disclosure.

Regulation & Taxation

The Netherlands, along with most of Europe, is in the midst of rapid changes in regulations that have had both positive and negative effects on investors. The European Securities Regulator is tackling many issues, including new disclosure under UCITS IV, synthetic exchange-traded fund rules, and new marketing regulations under a proposed MiFID II. Many of these pan-European regulations benefit investors, such as the requirement to use soft-dollar arrangements toward research for the fund. Taxes in the Netherlands are not particularly favorable to investors. Dutch taxes are unique within the survey: All property above an exempted amount is assumed to earn a stated return, and individuals pay taxes on that estimate rather than calculating actual capital earnings. Still, all in all, Dutch investors had an aftertax return lower than that of many countries in a hypothetical tax scenario conducted by Morningstar for this report.

Disclosure

Dutch Disclosure earns a B, which puts it above most countries in the study and brings up the country's overall score. Several factors contribute this above-average grade. For one, Dutch funds typically provide the name of the portfolio manager despite there being no requirement for it. Additionally, fund boards and management companies disclose their co-investment beside shareholders. The Netherlands is one of only two countries that disclose any management stake in the fund, and Dutch disclosures are very helpful to investors in this respect.

Fees & Expenses

Fund Fees & Expenses in the Netherlands are average. Foreign funds sold in the Netherlands tend to be more expensive than local funds, and the effects of this are compounded by the fact that there are relatively few local funds. On a more positive note, there are presently plans in place to prohibit asset-based commissions beginning in 2014, and new commission-free share classes are beginning to be introduced.

Sales & Media

Sales practices in the Netherlands are regulated by MiFID, and this directive goes far in preventing the most egregious sales practices from happening in countries belonging to the European Union. As a plus for investors, more than 50% of funds in the Netherlands are sold by a distributor offering multiple fund sponsors. However, the offerings of third-party funds can be limited, with a preference to the funds managed by the firm employing the advisor.

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New Zealand

Overall Grade

C–

Regulation & Taxation	C
Disclosure	D
Fees & Expenses	C
Sales & Media	B-

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.38
Equity	1.79
Allocation	1.49
Money Market	0.64
Domiciled Funds	
Fixed-Income	0.73
Equity	1.58
Allocation	0.89
Money Market	0.48

New Zealand's improved grade from prior studies stems from ongoing changes in regulation and disclosure. A C- is still below average, but there have been encouraging expansions on disclosure requirements. Morningstar anticipates that the New Zealand government's deliberate approach in making changes will result in more improvements and investor-friendly practices in the years to come.

Regulation & Taxation

Despite a below-average C grade, New Zealand is improving in Regulation & Taxation. The government is reviewing all fund regulations, but it is moving slowly. In the retirement sector, the government has been aggressive about changing regulations and improving legally required disclosures. New Zealand's tax structure is complex on the surface, but fund companies assess taxes on distributions prior to disbursing them to the investor. In the end, the total tax burden for New Zealand fund investors is low; the absence of most capital gains reduces investors' tax burdens.

Disclosure

New Zealand has made strides improving Disclosure, but the efforts have been uneven. Around the publishing date of this report, New Zealand is expected to provide portfolio holdings for the first time on superannuation funds, but plans to extend this requirement to standard mutual funds are still on hold. There is still ambiguity about fee disclosures for New Zealand funds, and standard reporting has not been implemented in full force. For example, some funds exclude trailing commissions from the reported annual expense ratio, despite the fact that these reduce returns.

Fees & Expenses

New Zealand's slightly below-average grade on Fees & Expenses is a result of both positives and negatives. New Zealand has a wide spectrum of foreign-domiciled funds registered for sale, and these tend to be much more expensive than the home-grown variety. The global assets included in estimating the cost of available-for-sale funds outweigh the small subset of domestic New Zealand funds in that sample. So while costs for available-for-sale funds are above the global average, costs for locally domiciled funds are in line with or slightly below the global average.

Sales & Media

New Zealand fares best in Sales & Media with its B -. Investors have a full spectrum of sales channels through which they can purchase funds, and the dominant sales channel is characterized by an open architecture. Investment platforms or purchase programs generally waive or significantly reduce stated investment minimums. Investors in New Zealand must acknowledge receipt of an offering document prior to purchasing fund shares, which helps ensure that investors are informed before the purchase. New Zealand stands out in requiring that advisors consider all competing investments prior to making a recommendation, ensuring that investors get recommendations that are most suitable for them.

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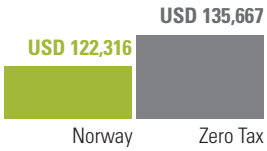
Norway

Overall Grade

B—

Regulation & Taxation	B-
Disclosure	B-
Fees & Expenses	B
Sales & Media	C

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.29
Equity	1.92
Allocation	1.69
Money Market	0.45
Domiciled Funds	
Fixed-Income	0.50
Equity	1.87
Allocation	1.26
Money Market	0.35

Norway's grade of B- is average within this survey. Norwegian investors face relatively high taxes but otherwise have a typical experience when it comes to Regulation & Taxation, Disclosure, and Fees & Expenses. Sales & Media constitute a weak area for Norway.

Regulation & Taxation

Norway gets an average grade in Regulation & Taxation despite taxes that take a big bite out of returns. High rates lower aftertax returns, and Norway also charges additional wealth taxes. On the bright side, investors can at least manage the timing of their taxes by deferring taxes on dividends and capital gains until the sale of fund shares.

Disclosure

Norwegian Disclosure is average and could be improved upon. Norwegian investors can generally obtain full portfolio holdings on a monthly basis, which is ideal for holdings disclosure. There is room for improvement in portfolio manager disclosure; currently it is voluntary and only sometimes provided by a minority of funds. Fund costs tend to be stated as a single number, so investors can't tell the split between the management fee, the administration fee, and trailing commissions within the total expense ratio.

Fees & Expenses

Norway's Fees & Expenses are slightly above average. Unlike most countries in the survey, Norwegian funds are only permitted to charge fulcrum performance fees, which penalize underperformance proportionately to rewarding outperformance. Morningstar considers this practice to be fairer to the investor than simply charging extra fees for outperformance. Annual expense ratios for funds available to Norwegians are about average.

Sales & Media

The lowest grade for Norway is in Sales & Media. Norwegian fund companies tend to offer only in-house funds. Morningstar estimates that less than a fourth of fund sales are through companies offering open architecture. This limits the ability of Norwegian investors to choose from a wide variety of funds. Finally, the media in Norway rarely mention high fund costs and only sometimes promote long-term investing.

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Singapore

Overall Grade

B

Regulation & Taxation	A
Disclosure	B
Fees & Expenses	C
Sales & Media	B-

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.40
Equity	1.94
Allocation	1.76
Money Market	0.35
Domiciled Funds	
Fixed-Income	1.09
Equity	1.72
Allocation	1.45
Money Market	0.36

Singapore fares decently in this survey with an overall grade of B and no major weaknesses. Singapore is more expensive than many markets in this study. Disclosure also has room for improvement, specifically around simplified offering documents.

Regulation & Taxation

Singapore receives an A in Regulation & Taxation. The complete absence of taxes on mutual fund investments is a feature unique to Singapore. In addition to most investments being free from taxes, the regulators have allowed this to apply to all approved investment schemes, even if that income earned directly would have been subject to taxes. Regulations also protect investors from funds using soft dollars for non-research benefits.

Disclosure

Singapore's Disclosure is an area where regulation could generate investor-friendly changes. Instead of a single Key Investor Information Document or simplified prospectus, investors receive a packet containing a product highlight sheet and a fact sheet. This information has much of the information found in simplified prospectuses around the world, but not all. These documents typically are delivered for one fund at a time. Funds domiciled in Singapore must disclose the manager's name and investment industry history, but start dates are not included, so investors can have a hard time tying specific performance to an individual manager.

Fees & Expenses

Singapore's Fees & Expenses have the most room for improvement. Investors in Singapore continue to pay for advice through front loads or ongoing expenses embedded in Total Expense Ratios. Investors don't often have the choice to avoid these fees, and this leads to a low level of transparency around the cost of advice. Fixed-income, equity, and allocation funds domiciled in Singapore have lower asset-weighted medians than the full universe of funds available for sale.

Sales & Media

Investors in Singapore have a decent experience when it comes to Sales & Media, earning a B- grade. Morningstar observes that more than 80% of funds are sold through intermediaries offering funds from multiple providers.

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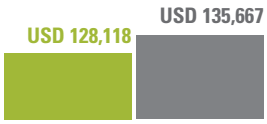
South Africa

Overall Grade

D

Regulation & Taxation	B-
Disclosure	F
Fees & Expenses	B-
Sales & Media	C

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	0.92
Equity	1.90
Allocation	1.80
Money Market	0.28
Domiciled Funds	
Fixed-Income	0.79
Equity	1.43
Allocation	1.85
Money Market	0.23

South Africa's overall grade of D is heavily driven by outdated disclosure rules that South Africa's regulators and fund industry have been slow to bring up to global industry standards, let alone best practices. The overall grade is brought up slightly by South Africa's average grade in other areas.

Regulation & Taxation

The experience of the South African investor in Regulation & Taxation is a mix of good and bad policies, earning South Africa a score of B- in this area. Large tax exemptions and tax rates that can often be lowered in practice bring taxes on investments down to a level much lower than stated rates would indicate. Unfortunately, South African capital controls restrict funds from investing more than a certain percentage in foreign assets, ultimately limiting choices for investors. As one of only four countries in the survey that limit where funds can invest geographically, South Africa is not only unhelpful to investors in this regard but also unusual within the survey.

Disclosure

South Africa is the only country that fails in Disclosure. The point-of-sale application form has very limited information when compared with global simplified prospectuses. While most global simplified prospectuses pertain to only one fund at a time, the South African equivalent generally covers all the funds offered by a single asset-management firm. South Africa lags behind the global standard in other disclosure practices as well. Although many countries require annual updates to offering memorandums, South African funds only update these documents in the event of a major restructuring. In addition, South African funds' disclosure of annual expense ratios is not fully standardized, thus making it difficult for investors to compare expenses across funds.

Fees & Expenses

Fees & Expenses in South Africa balance out to receive an average grade of B-. Annual expense ratios for allocation funds tend to be higher than the average globally but lower for money market funds and average for equity and fixed-income funds. With proper disclosure of the relevant terms, funds are allowed to charge performance fees that reward managers for outperformance without an accompanying fee reduction for underperformance. This practice, while unhelpful for investors, is typical within the survey.

Sales & Media

Sales practices in South Africa are mainly overseen by a self-regulatory body. Regulations put out by this body have strengths and weaknesses. There are strict limits on payments and gifts that could cause a conflict of interest between advisors and their clients, but unfortunately this restriction only applies to independent sales channels. Fund brokers tied to a closed channel can receive incentives for selling additional funds. Large financial institutions account for more than half of fund sales, which translates to a greater number of advisors selling in-house products rather than presenting their clients with all possible choices.

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Spain

Overall Grade

B—

Regulation & Taxation	B
Disclosure	B
Fees & Expenses	B-
Sales & Media	D+

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.31
Equity	1.90
Allocation	1.64
Money Market	0.40
Domiciled Funds	
Fixed-Income	1.01
Equity	1.88
Allocation	0.95
Money Market	0.51

Spain's overall grade is an average B-. Spain garners above-average scores in Regulation & Taxation as well as in Disclosure. Spain is about average on Fees & Expenses. Sales & Media practices receive a much lower score, partially due to the small percentage of funds sold through open-architecture platforms.

Regulation & Taxation

Regulation & Taxation gets a slightly above-average score in Spain. Through UCITS, investors have access to funds domiciled and invested in a variety of countries and also benefit from UCITS regulations. Regulatory sanctions in Spain are generally disclosed to the public, aiding transparency. Soft-dollar arrangements must be disclosed, and pan-European regulations require they be used for research. Spain has one of the most investor-friendly tax policies in the survey. Tax incentives for retirement and exemptions or deferrals in certain situations give fund investors a large tax break.

Disclosure

Spain scores slightly above average in Disclosure. Spain has good disclosure practices for portfolio holdings, requiring funds to disclose holdings on a quarterly basis. Like other countries in the European Union, Spain requires funds to provide a Key Investor Information Document. The KIID has a mix of good and bad practices. It provides clear explanations of risks in a standard format that makes comparisons simpler for investors. The KIID also contains fund performance and is manageable at a length of two pages. But the KIID lacks trading costs and manager information. And the KIID section describing the fund's strategy is not always clear or specific enough to help investors understand the fund's investment objective.

Fees & Expenses

Fees & Expenses in Spain are average. Costs for funds available for sale in Spain tend toward the median globally. Slightly higher-than-average expense ratios for locally domiciled equity funds are offset by slightly lower-than-average expense ratios for allocation funds. Spain allows funds to charge performance fees without making an offsetting reduction in fees for underperformance. But the terms of the performance fee are stated clearly in fund documents.

Sales & Media

Spain scores low in Sales & Media practices. The Spanish media rarely mention high fund costs and only occasionally promote long-term investing. Other aspects of Spain's Sales & Media practices are more unusual. For example, less than 20% of the funds sold in Spain are sold through an open-architecture system, much lower than other countries in the survey. Funds in Spain also have strict investment minimums and do not waive a significant portion of them for automatic investment plans, but these minimums are generally very low.

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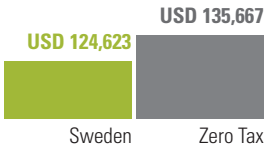
Sweden

Overall Grade

B–

Regulation & Taxation	C
Disclosure	B
Fees & Expenses	B
Sales & Media	C

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.18
Equity	1.86
Allocation	1.58
Money Market	0.43
Domiciled Funds	
Fixed-Income	0.70
Equity	1.42
Allocation	1.21
Money Market	0.40

Sweden's grade of B- is average within this survey. Since Swedish regulations follow European Union conventions, it does not stand out in very many areas. Taxation in Sweden is expensive despite rules allowing fund investors to defer taxation.

Regulation & Taxation

Regulation & Taxation receives a C, because Swedish investors pay some of the highest taxes of any investors in this survey. Despite boons such as deferral of capital gains taxation until liquidation of fund shares, the high rates eat into Swedish investors' returns significantly. Morningstar found that in a hypothetical tax scenario with a pretax annual return of 6.29%, returns for the Swedish investor would be 1.79 percentage points less after taxes. Sweden can also improve regulations by requiring funds to have independent supervisory boards.

Disclosure

Sweden's Disclosure grade is slightly above average, but there is room for improvement. The Key Investor Information Document, which is required for all funds in Sweden, has many good features but is lacking in others. Since its switch to the KIID from the previous simplified prospectus, Sweden no longer requires funds to include a monetary illustration of fees. This is unfortunate because it was one of the most notable investor-friendly practices in Sweden and gave investors a better idea of how much they were paying in fees by converting ratios into actual monetary amounts (based on an assumed standard monetary value and return for the fund). More positively, Sweden, unlike many countries, requires the disclosure of portfolio managers' names.

Fees & Expenses

Sweden scores slightly above average for Fees & Expenses. Investors in Sweden have the opportunity to invest in both domestic and foreign UCITS funds. Investors who choose to stick with locally domiciled funds tend to pay a little less in Total Expense Ratios than investors who buy the many foreign funds available in Sweden. Swedish investors have access to funds without loads or trailing commissions, and this helps raise the overall grade in the section as well.

Sales & Media

Sweden is weakest in Sales & Media. Swedes purchase funds from closed-architecture distribution sales channels more than half the time. This lack of choice is a poor practice and investors deserve to choose from the best funds no matter the provider. Morningstar finds that the main financial media outlets pay little attention to funds and rarely mention whether a fund is expensive compared with its peers.

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MORNINGSTAR

Switzerland

Overall Grade

B—

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

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.19
Equity	1.83
Allocation	1.64
Money Market	0.34
Domiciled Funds	
Fixed-Income	0.88
Equity	1.16
Allocation	1.32
Money Market	0.20

With a grade of B-, Swiss investors have an average experience when compared with the rest of the countries in this survey. Although Switzerland's fund industry operates under a self-regulatory system, its governance is as effective as those found in many other countries where the industry is regulated by an outside entity.

Regulation & Taxation

Switzerland's government works closely with the fund industry in a self-regulatory system. Despite this apparent conflict, there are still protections built into the laws and the fund industry's self-regulation provides enough benefits to garner Switzerland an average B in Regulation & Taxation. For example, Swiss funds are not limited with regard to where they can invest geographically, and foreign-domiciled funds are easily available (as is typical among the countries in the survey). Additionally, most enforcement actions by the Swiss industry regulator are made public and the rules governing the fund industry are kept up-to-date. While the Swiss tax experience can vary greatly depending upon where one lives within Switzerland, the lack of capital gains taxes means that investors still face a lower burden than in most countries.

Disclosure

Swiss funds' Disclosure is about average, with its main strength being the clarity and relevance of the information within the point-of-sale simplified prospectus. However, there is still room for improvement. Swiss funds can go beyond typical disclosure by supplying investors with fund holdings monthly (rather than semiannually) and disclosing portfolio manager names to all investors (rather than just professionals and institutional investors).

Fees & Expenses

An average grade in Fees & Expenses reflects the fact that Swiss investors face expense ratios and fee practices that look like most of the rest of the world. Funds based in Switzerland are less expensive than foreign funds with rights to sell into Switzerland. Like many other countries, Switzerland could improve by making funds without loads or trailing commissions more accessible to investors, as they currently make up a minimal percentage of total investor assets.

Sales & Media

Switzerland remains typical in sales practices. Major financial institutions dominate fund sales, but online platforms and independent advisors are available. Morningstar finds that the media in Switzerland does not focus enough on long-term investing in its articles about funds. The media also tends to ignore high costs, which have been empirically shown to be a strong predictor of a fund's future performance.

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MORNINGSTAR

Taiwan

Overall Grade
B

Regulation & Taxation	B
Disclosure	B+
Fees & Expenses	C+
Sales & Media	B+

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.41
Equity	1.94
Allocation	1.76
Money Market	0.40
Domiciled Funds	
Fixed-Income	1.29
Equity	1.75
Allocation	1.33
Money Market	0.20

Taiwan's overall grade is a slightly above-average B. Taiwan has excellent taxation policies and generally beneficial Disclosure requirements and Sales & Media practices. Taiwan's overall grade is brought down by high fund costs.

Regulation & Taxation

Taiwan's regulations are good, but taxation is where the country really shines. Taiwan has one of the most favorable tax policies in the survey. There are no taxes on capital gains, and there are tax incentives for investing in the public pension fund, although these incentives are not available for ordinary mutual funds. Taiwan keeps up with the rest of the world in terms of regulations but rarely exceeds the norm. Sanctions on individual funds are usually disclosed publicly, and foreign funds are made easily available to investors. Taiwan does go beyond the norm by banning soft-dollar arrangements altogether, even though most countries allow soft-dollar arrangements as long as they are used toward research.

Disclosure

Taiwan's Disclosure is in line with that of other countries but requiring quarterly disclosure of full portfolio holdings brings it up a notch. Likewise, the fact that most funds disclose (albeit spotty) manager information puts Taiwan above many countries in this report. Taiwan's simplified prospectus is concise at four pages or less. The simplified prospectus also contains key information such as a historic total expense ratio and a section explaining the strategy and objective of the fund. Despite these positives, Taiwan could still improve by requiring shareholder reports to be updated semiannually (as is the norm within this report) rather than annually.

Fees & Expenses

Taiwan scores average for Fees & Expenses. Fees for funds available for sale to Taiwanese investors are among the highest in the survey. It is difficult for Taiwanese investors to invest in funds with no loads or trailing commissions, and certain fund types are allowed to charge an asymmetrical performance fee wherein higher fees for outperformance are not offset by a similar fee reduction for underperformance.

Sales & Media

Sales practices in Taiwan are generally beneficial to the investor. Directed brokerage, or sending trade transactions to a specific firm in exchange for directed trades, is prohibited in Taiwan for the benefit of investors. Over 80% of funds are sold through an open-architecture system, and the variety of distribution channels is helpful for the investor. The media in Taiwan is average, somewhat promoting long-term investing and sometimes noting fund costs when they are high.

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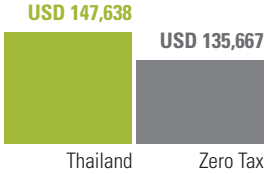
Thailand

Overall Grade

B

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

Growth of USD 100,000



Average Expense Ratios, %

All Funds	
Fixed-Income	0.43
Equity	1.76
Allocation	1.68
Money Market	0.59

Thailand's overall grade is a slightly above-average B. Thai investors enjoy favorable tax policies and benefit from above-average Disclosure requirements. Thailand does well in Fees & Expenses. Thailand's poor Sales & Media practices offset some of its strengths.

Regulation & Taxation

With favorable policies such as tax exemptions on capital gains and even a tax credit for investment in long-term equity investments—five years or more—Thailand fares best in this survey on taxation. The tax credit, in particular, is a boon to investors and results in an aftertax return even higher than the pretax return in Morningstar's hypothetical tax scenario calculated for all countries in the survey. Regulations in Thailand are not as beneficial, bringing the grade in this area down to a B. Thailand is one of the few countries that places restrictions on funds investing in foreign securities. Upcoming regulations may introduce changes, but current rules make it difficult for Thai investors to gain access to foreign-domiciled funds.

Disclosure

Thailand is average on Disclosure. Simplified prospectuses are required to pertain to only one fund. However, at an average length of more than 10 pages, they are too long to be ideal for investors. The simplified prospectus also excludes trading costs and the names and tenures of managers—valuable information. But all funds are required to disclose full holdings and fund fees are disclosed in a uniform format. Thailand also requires that shareholder reports be updated at least semiannually and offering memoranda to be updated annually.

Fees & Expenses

Thailand scores above average in Fees & Expenses in part because of the wide availability of funds without loads or trailing commissions. These funds also constitute a moderate portion of overall investment assets. Although the practice is not technically banned, no Thai fund is known to charge asymmetrical performance fees that reward managers for outperformance without also reducing fees for underperformance. This sets Thailand apart from the most countries in the survey. Total expense ratios are near average for Thai equity, allocation, and money market funds but investors enjoy low fees in comparison to other countries in the survey for fixed-income funds.

Sales & Media

Thailand has poor Sales & Media practices. Less than 20% of funds are sold through an open-architecture system, compared with over 80% for most countries. Funds are mostly sold through banks, and investors can only purchase funds through a limited number of distribution channels. Media outlets in Thailand rarely mention costs or promote long-term investing. Thai funds are some of the least expensive globally, with only the much larger U.S. charging consistently lower TERs. Money market funds fare worse and are just at the global average.

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MORNINGSTAR

United Kingdom

Overall Grade

B–

Regulation & Taxation	B+
Disclosure	C+
Fees & Expenses	C
Sales & Media	A

Growth of USD 100,000



Average Expense Ratios, %

Available-for-Sale Funds	
Fixed-Income	1.22
Equity	1.75
Allocation	1.64
Money Market	0.40
Domiciled Funds	
Fixed-Income	1.18
Equity	1.66
Allocation	1.60
Money Market	0.38

The United Kingdom's overall grade is an average B-. United Kingdom is weakest in the area of fund fees and strongest in sales practices.

Regulation & Taxation

A slightly above-average grade reflects the U.K.'s fairly typical Regulation & Taxation policies. As a member of the European Union, the U.K. can give investors access to UCITS-compliant funds from elsewhere in Europe. Additionally, UCITS regulation ensures that all EU members meet minimum standards on certain regulatory areas. On the flip side, pan-European regulations may be changing too rapidly for investors to follow. The U.K. also scores slightly above-average in taxation. Deferring capital gains taxes until sale of shares (typical within this survey), large annual capital gains exemption, and relatively low tax rates on dividends and interest contribute to U.K. investors paying less in taxes than investors in many other countries in the survey.

Disclosure

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

Fees & Expenses

The U.K.'s weakest area is Fees & Expenses, but this reflects fund expenses prior to full implementation of the U.K. fund regulator's Retail Distribution Review. Among other reforms, the RDR bans advice fees from being bundled with fund expenses. It is expected that reported annual expense ratios will fall after information is updated to reflect the new distribution rules.

Sales & Media

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

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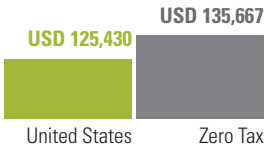
United States

Overall Grade

A

Regulation & Taxation	C
Disclosure	A
Fees & Expenses	A
Sales & Media	B+

Growth of USD 100,000



Average Expense Ratios, %

All Funds	
Fixed-Income	0.63
Equity	0.82
Allocation	0.77
Money Market	0.17

The United States receives an overall grade of A. U.S. fund investors pay lower expense ratios than investors in any other country. U.S. disclosure also gets an A thanks to frequent portfolio reporting and greater transparency for management and fees alike. On the other hand, the tax regime is poor as fund investors must pay taxes annually even on gains that occurred before they purchased the fund.

Regulation & Taxation

The U.S. fares badly in Regulation & Taxation, with a grade of C. U.S. investors have multiple regulators overseeing the fund industry, and recently there have been conflicts between regulators, causing confusion for fund sponsors. Additionally, only four other countries tax investors on the capital gains earned within fund shares. While U.S. tax rates are average, the reduced reinvestment caused by annual taxation results in lower aftertax returns than are seen in most markets. Of the countries in this survey, the aftertax returns in the U.S. are lower than the aftertax returns of every country that is not in Scandinavia.

Disclosure

Investors in the U.S. have more disclosure at their fingertips than anywhere else in the world. For example, funds must publish the managers' names and tenures in the prospectus. The Securities and Exchange Commission in the U.S. also requires funds to submit a Statement of Additional Information that contains information rarely found in other areas of the world, such as managers' compensation and investment in the funds they manage. Offering documents in the U.S. contain a monetary illustration of fees, which allows investors to easily see how much they would pay hypothetically in dollar amounts.

Fees & Expenses

U.S. funds get an A in Fees & Expenses. The asset-weighted expense ratio of a typical fund in the U.S. is less expensive than anywhere else in the world. Fees are lower because of economies of scale, as well as price competition across open-end mutual funds and from exchange-traded funds. Typically, management fees contain breakpoints that reduce fees above set asset levels. On the other hand, the U.S. is one of the markets in which the expense ratio explains the least about fund ownership costs because the U.S. is one of a handful of countries where it is common to pay for advice outside of the annual expense ratio. Still, this transparency helps investors see what they pay for advice and reduces the possibility of a recommendation bias due to a higher commission. It is unclear whether this reduces investors' total cost.

Sales & Media

In the area of Sales & Media, the U.S. receives an above-average grade of B+. Unlike much of Europe, higher commissions as inducements for selling specific funds are permitted in the U.S. provided they are disclosed. The media in the U.S. pays attention to costs and long-term investing more frequently than do the media in other countries.

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Country Details

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Australia

Regulation & Taxation

In Australia, the Australian Securities and Investments Commission 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, which oversees superannuation (retirement) assets and the banking and insurance industries. Fund advertising and sales practices are also regulated by ASIC and APRA. The Financial Services Council (FSC, formerly 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. ASIC's policy statements are published in its Regulatory Guide. The laws that govern the superannuation industry are the Superannuation Industry (Supervision) Act 1993, the Superannuation Industry (Supervision) Regulations 1994, the Retirement Savings Accounts Act 1997, and the Retirement Savings Accounts Regulations.

While there are multiple laws that apply to the investment industry, ASIC is responsible for developing specific regulation regarding public investment funds from the power granted in these statutes. ASIC is the main regulator for retail mutual funds, but other regulators including APRA have overlapping responsibilities for competing products. There are occasional situations where regulations come into conflict. For example, superannuation funds have separate holdings disclosure requirements that do not apply to non-superannuation funds under APRA. This results in situations where the legal type of the product will determine investment and disclosure rules that are not identical for funds managed similarly using another legal structure. The industry is making attempts to harmonize some of these disclosures. Regulations are somewhat up-to-date, but they can be delayed and only partially address known problems. Regulators are adequately staffed, and enforcement is comprehensive; recent changes include actions to govern high-frequency trading and dark pools, as well as the Future of Financial Advice reform. Some enforcement actions are public, but publication of regulatory actions against a fund is released on a case-by-case basis.

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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 parent company. The ASIC Regulatory Guide requires that the duties of custodial staff be appropriately segregated from the duties of other employees, and custodial staff should not report to groups responsible for investment, marketing, or operations.

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

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

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

Taxation of fund investors in Australia provides incentives to invest for retirement. Investments in superannuation funds receive favorable tax treatment compared with 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 but disclosure regulations are different for standard and tax-advantaged funds.

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

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

Disclosure

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

The Total Expense Ratio within PDS is a prospective TER without historical context, but it is accompanied by a numerical example that illustrates the total expenses an investor could expect to pay on an investment. The standardized example is based on a balance of AUD 50,000 and a AUD 5,000 contribution during the year. The contribution fee (for example, AUD 0 to AUD 200) and the management fee (for example, AUD 800) are shown, and a total amount is provided. The expense disclosure is generally good, but in other areas the PDS is missing information useful for investors. The document does not show trading costs in any manner. These are the main expenses investors face that are not part of the TER. There is no requirement for incorporation of performance history, the names and tenures of the portfolio manager or management team are missing, and the document does not contain portfolio holdings in any manner.

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

The aggregated expenses shown in the prospective TER within the PDS are well-regulated. The ASIC Disclosure of Fees and Charges for Superannuation and Managed Investment Products guideline requires uniform representation of fees and expenses with the intention of allowing investors to easily compare one fund with another. The prospective expenses in the PDS include the effect of acquired fund expenses in the case of fund of funds structures.

Remarkably, mutual funds in Australia are not required to publish a full and complete disclosure of their portfolio holdings. In an otherwise sophisticated fund market, Australia's refusal to even approach global best practices on disclosure is surprising—and unacceptable. Worse, Australian funds rarely provide this information to investors voluntarily. The FSC is working on a policy to obligate its members to minimum levels of holdings disclosure, but no final policies have been adopted.

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

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

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Fees & Expenses

Starting in July 2013, the Australian Treasury will implement reforms known as Future of Financial Advice . According to the ASIC website:

The legislation amends the Corporations Act and introduces:

1. A prospective ban on conflicted remuneration structures including commissions and volume based payments, in relation to the distribution of and advice about a range of retail investment products. The ban will not apply to some products and advice services, including for example:

   - general insurance, where the benefit only relates to a general insurance product;
   - basic banking products where advice is only given on a basic banking product;
   - financial product advice given to wholesale clients; and
   - advice where the client pays the benefit to the provider (e.g. fee for service arrangements).

2. A duty for financial advisers to act in the best interests of their clients, subject to a 'reasonable steps' qualification, and place the best interests of their clients ahead of their own when providing personal advice to retail clients. There is a safe harbor which advice providers can rely on to show they have met the best interests duty. This is intended to be the minimum standard of compliance with the best interests duty.

3. An opt-in obligation that requires advice providers to renew their clients' agreement to ongoing fees every two years. ASIC will have the ability to exempt advisers from the opt-in obligation if they are satisfied that the adviser is signed up to a professional code which makes the need for the opt-in provisions unnecessary.

4. Enhanced powers for ASIC.

Therefore, starting later this year sales loads will no longer exist and investors will ban traditional commissions in favor of external payments directly for advice. It is estimated that more than three fourths of investor-advisor relationships will be affected by these changes. Additionally, there is a mandated annual disclosure statement itemizing the fees paid and services provided.

While sales loads will no longer exist in the near future, no-load funds currently make up a minimal part of investors' assets. Currently between 25% and 50% of funds report charging a front load, although this number is expected to go down to zero later this year.

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

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year. Published historic Indirect Cost Ratios include performance fees, so investors know the true cost of the fund in the past year.

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. Morningstar considers the ICR the comparable TER for Australian funds.

The median asset-weighted expense ratios for funds in Australia are:

Fixed-Income	Equity	Allocation	Money Market
0.60%	1.13%	0.96%	0.50%

Sales & Media

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

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 between USD 1,000 and USD 2,000.

In Australia, investors are protected from unscrupulous advice through a strict ban on "off-the-page" sales. Investors must certify that they receive a PDS when they purchase a fund in person, and they need to certify that they have received it electronically when they purchase through online platforms. FOFA will require that advisors act in the best interest of clients, as fiduciaries. This will be a stronger investment protection than in most markets.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not prohibited but are not known to be common. The same professional association fiduciary standard on soft-dollar arrangements governs directed brokerage. So while these are not banned from advisors receiving payment, the fund company is effectively banned from paying advisors unless it is in the best interests of other fund shareholders.

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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 they sometimes promote long-term investing. Articles on mutual funds with hedge fund fee structures do generally mention fees, but these are the exception.

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Belgium

Regulation & Taxation

In Belgium, the Financial Services and Markets Authority replaced the Finance and Insurance Commission in 2011. FSMA is the regulator of financial markets and listed companies. According to its website:

"The FSMA is responsible for supervising the financial markets and listed companies, authorizing and supervising certain categories of financial institutions, overseeing compliance by financial intermediaries with codes of conduct and supervising the marketing of investment products to the general public, as well as for the 'social supervision' of supplementary pensions. The Belgian government has also tasked the FSMA with contributing to the financial education of savers and investors."

The Law of 6 April 1995 on secondary markets, on the legal status and supervision of investment firms, and on intermediaries and investment advisors governs the investment industry. The Royal decree of 3 March 2011, establishing FSMA, supplements the primary regulation. In addition, the laws of Belgium conform to the European Union directives including UCITS and MiFID.

While the Law of 6 April 1995 contains a large amount of the regulation and regulatory authority for the Belgian investment industry, the laws in Belgium are considered to be piecemeal, with some fund regulation derived from a variety of separate statutes. The laws in Belgium conform to pan-European regulations such as MiFID and UCITS IV. Belgium has multiple regulators, but they are generally in agreement with each other. In much of Europe, including Belgium, there is an industry perception that fund regulations are constantly changing, almost too fast for fund sponsors to keep up with or for investors to familiarize themselves with the changes. 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. In fact, the FMSA preapproves permitted content and format of all fund advertising; ads that are not preapproved are prohibited.

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 FSMA requires that the duties of the custodians be appropriately segregated from the duties of other employees, and custody staff should not report to groups responsible for investment, marketing, or operations.

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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 Belgium, and funds with these arrangements are required to disclose them. As a member of the EU, Belgium's laws and regulations comply with MiFID; this directive requires that soft-dollar arrangements be used for the benefit of investors and be disclosed, and that managers seek best execution of trades. The BEAMA code of conduct specifies that alternative brokerage arrangements should be limited to goods and services that benefit fund investors. Requiring that these benefits are specific to the group of investors generating the benefit is a better protection for investors than we see in most markets.

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

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

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

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

Belgium taxes both interest and dividend income earned within funds regardless of distribution. But Belgium exempts all profits and proceeds obtained through the normal management of one's private assets (normal management is defined as assets held for more than one year). Capital gains within fund portfolios are not taxed. Belgium does not have a wealth tax or securities transaction tax applied to fund ownership. In Belgium, our hypothetical investment with a 6.29% annualized pretax return has an aftertax return of 5.71%, which indicates a reduction of 0.58% annually.

Most goods and services in Belgium are subject to Value Added Tax. Funds are subject to a 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

As a member of the EU, funds in Belgium are compliant with UCITS. Under the UCITS IV Directive, the simplified prospectus was replaced by the Key Investor Information Document, which by regulation must be in place after July 1, 2012. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID

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

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

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

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end funds and exchange-traded funds. Other products such as ETNs, ETCs, closed-end funds, and structured products have separate regulations. In Belgium, the funds' offering document only needs to be updated upon a material change in the operating terms or investment strategy, rather than annually. Fund companies must publish both annual and semiannual reports, and the financial statements within these shareholder reports contain a comparison with the prior-year period. Unlike most countries in this survey, management's discussion of performance within reports is typically insightful and ties the portfolio returns to specific market events and trades.

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

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

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Funds are not required to provide the names and tenures of portfolio managers, although this information is sometimes provided to professional analysts. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The fund management company's coinvestment is disclosed for Belgian funds.

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

Fees & Expenses

Only very large or institutional investors in Belgium have the ability to negotiate loads with their financial advisors. It is rare for investors to pay financial advice fees other than through commissions or retrocessions. Less than 25% of funds in Belgium report being no-load, and investors find it very difficult to purchase funds without loads or retrocessions even when investing without external advice.

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

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

The median asset-weighted expense ratios for available-for-sale and domiciled funds in Belgium are:

Fixed-Income	**Equity**	**Allocation**	**Money Market**
1.38%	1.90%	1.64%	0.39%
Fixed-Income / Domiciled	**Equity /** Domiciled	**Allocation /** Domiciled	**Money Market /** Domiciled
0.31%	1.56%	1.18%	0.44%

Sales & Media

In Belgium, fund products linked to insurance contracts are the most common fundlike 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. Belgian investors only have wide access to online brokerage or bank and insurance company sales channels when purchasing funds. Banks and insurance companies dominate the market, which has an extreme level of vertical integration. It is estimated that less than 20% of fund sales occur through open- or guided-architecture sales channels, so in the vast majority of times investors are only offered products branded by the firm distributing the fund.

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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 less than USD 500. The median investment minimum of Belgian-domiciled funds is also below USD 500.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Belgium, this type of advertising to retail investors is not allowed and is enforced by the FMSA. Additionally, in many instances consumers in the EU have cooling-off periods where certain purchases can be canceled. Advisors and other fund salespeople in Belgium can make any recommendation they feel is appropriate without considering equivalent products available that are most suitable for the specific investor.

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

Across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice. Sales contests or other incentives related to selling a specific fund are banned in Belgium. But the practice of using sales contests to motivate the general sales of funds is allowed with little known oversight or guidance.

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 they rarely promote long-term investing.

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Canada

Regulation & Taxation

Each province and territory in Canada is responsible for securities regulation. Securities regulators from each province and territory come together to form the Canadian Securities Administrators. 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 are in place to promote consistency. Standards exist for the marketing and administration of mutual funds. The Investment Funds Institute of Canada 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, and these regulations are kept up-to-date. The regulators are adequately staffed, and enforcement is comprehensive, but there is little proactive oversight. Most enforcement actions are public in Canada, including fines imposed and the type of violation. The agency regulating advertising and sales is perceived as effective at preventing misleading marketing materials.

All countries in this survey, including Canada, require funds to be audited by an 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. Soft-dollar arrangements are 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.

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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 to consider and provide recommendations to the manager of the fund on possible conflicts of interest. An IRC may oversee a single fund or an entire fund family, more often the latter. 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.

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

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. 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 management and sales practices of the investment choices available within RPP and RRSP plans are essentially identical to taxable fund choices. One notable feature of the retirement market in Canada is the use of pooled funds rather than mutual funds. Pooled funds are investments very similar to mutual funds but offered privately without public disclosure requirements. The lack of comparable public information makes analysis of these investments difficult for investors and third-party research providers.

On Jan. 1, 2009, the Canadian federal government introduced the Tax-Free Savings Account. This provides Canadians with another way to shelter their investments from taxes. 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 CAD 5,500 annually, and withdrawals are tax-free. Unlike the RRSP, in which withdrawals are taxed, the gains on investments inside a TSFA are never subject to tax.

Canadian investors are responsible for taxes on most investment income earned within funds, held in a taxable account, on an annual basis. Interest income and short-term capital gains accrue taxes at the investors' marginal income tax rate. Dividends are taxed annually, but domestic dividends are subject to an imputation calculation, which attempts to remove the double taxation of dividends. Capital gains earned within fund shares are also subject to annual taxes, albeit at a lower rate for shares held longer than one year; these taxes also apply to gains on the liquidation of funds. There are no additional taxes on fund investments in Canada. As mentioned above, since 2009, Canadian investors also can invest limited amounts tax-free. In our hypothetical investment we assume that Canadian investors have put the maximum in a TFSA from January 2009 through December 2012 earning the same rates as the hypothetical for 2013 through 2017 with the remaining beginning

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balance held in a taxable account. The analysis assumes the split based upon January 2013 values between a TFSA and a taxable account, but new contributions to either account are not considered. The annualized aftertax return of this investment is 5.40%, a reduction of 0.89% from a 6.29% pretax return.

Most goods and services in Canada are subject to the Goods and Services Tax and a provincial sales tax. 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 four 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.

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. These documents are not required to be for a single fund, and typical documents contain all of the funds offered by the provider. Although the simplified prospectus is written 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. Typically, the fund-specific sections contain an investment objectives section detailed enough for an experienced investor to understand the fund's strategy. These sections also identify which risks are probable for each specific fund, but an investor would need to go to the main section describing risks in order to find a definition of the risk identified.

The Total Expense Ratio, called a Management Expense Ratio in Canada, is provided with a breakout of management and administrative costs. Both historical and prospective figures are provided. The simplified prospectus also contains a monetary illustration of fees based upon an assumed standard monetary value and return. As a rule, any trading cost information, whether it is explicit commissions or a proxy of trading costs such as turnover ratio, is unavailable in the simplified prospectus. Fund returns are also unavailable in the document. The simplified prospectus does not include fund returns or portfolio holdings information.

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

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Regulation in Canada requires that all expenses be disclosed in percentage form in the prospectus and MRFP and in currency within the financial statements. The financial statements itemize 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 location in the fund literature such that investors can compare funds with 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. Funds are required to disclose fees and expenses in a uniform manner. The prospective MER in Canada includes acquired fund expenses, although the historical MER is not inclusive of acquired fund expenses.

At the time of this report's publication, the CSA announced new disclosure requirements being phased in beginning July 15, 2013. These are expected to improve disclosure around advice payments so that investors will be able to see an annual summary in dollar terms of all fees paid to the distributor and advisor (including trailing commissions and loads). Investors can also expect a new annual investment performance report that includes information such as the investor's percentage returns for standardized periods, amounts of deposits and withdrawals for the past year, and the worth of total contributions to the account as of the report date.

Mutual funds are required to publish a full and complete disclosure of portfolio holdings semiannually. The top 25 holdings are required quarterly, and some fund companies also elect to disclose their top holdings monthly.

Portfolio manager information can be found in the Annual Information Form, 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 managers' compensation structure information or information on the manager's investment in the fund is not provided to investors.

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

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Fees & Expenses

In Canada, investors are presented a maximum load in fund documents, but these are negotiable with their financial advisors. Investors in Canada generally do not pay for advice in addition to loads and TERs. In Canada, less than 25% of funds report charging a front load, but the vast majority of funds in Canada pay a retrocession (trail commission) out of the MER to compensate advice providers. When purchasing funds without advice, it is rare for investors to invest in funds with no loads or trail commissions. Despite the existence of these funds, data from an IFIC-sponsored study indicate that funds without trails make up a minimal part of investor mutual fund assets.

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. In Canada individual investors do not have the choice to invest in foreign-domiciled funds.

The median asset-weighted expense ratios for funds in Canada are:

Fixed-Income	Equity	Allocation	Money Market
1.50%	2.42%	2.15%	0.55%

A large portion of Canadian investment savings are in pooled funds within retirement plans. At this time, the lack of transparency on these fees does not allow us to incorporate these retirement funds into the expense analysis.

Sales & Media

Over the past few years, the prominence of traditional mutual funds in Canada has been overtaken by exchange-traded funds. Canadians have a full spectrum of local and U.S.-domiciled ETFs as investment choices; these are generally free from embedded advice fees. In our opinion, ETFs have now become the preferred pooled investment vehicle for new assets. 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. Between 50% and 80% of funds in Canada are sold through a distributor with an open-architecture system.

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 less than USD 500.

"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

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unclear how frequently this restriction is enforced. Additionally, when purchased via telephone or Internet, funds have 48 hours to supply a prospectus to new buyers. Advisors are generally expected to consider all similar products when making a fund recommendation.

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

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

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

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China

Regulation & Taxation

The China Securities Regulatory Commission 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:

1. To establish a centralized supervisory system for securities and futures markets and to assume direct leadership over securities and futures market supervisory bodies.

2. 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 businesses. To raise the standard of information disclosure.

3. To increase the capability to prevent and handle financial crises.

4. 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, coordinate, supervise, and examine matters related to securities in various regions and relevant departments. To direct, plan, and coordinate test operations of futures markets.

5. To exercise centralized supervision of the securities business.

The CSRC is responsible for regulating and supervising investment funds. The China Insurance Regulatory Commission and the CBRC will join in discussions of certain issues such as whether insurance money should be invested in the secondary market. Regulations are considered up-to-date and are changed to address known problems arising in the fund industry worldwide. 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.

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

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. Since 2007, a regulation has been in place that requires all benefits through soft dollar and directed brokerage to benefit fund shareholders.

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 overseas. China, India, South Africa, and Thailand are the only countries to have investment policies that are this restrictive. China does not allow the sale of funds registered in other jurisdictions to individual investors.

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

In China, there are taxes on income distributions but not capital gains. Rather than individuals being required to file taxes themselves, all interest and dividend income from Chinese companies are subject to a 20% withholding level before the fund even receives proceeds. For individual investors it appears there are no taxes, but taxes are incurred prior to the return being passed to the fund investor. In China, our hypothetical investment with a 6.29% annualized pretax return has an aftertax return of 5.78%, which amounts to a reduction of 0.51% annually.

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

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Disclosure

In China, investors receive simplified prospectuses on their fund investments. These are required to be for one fund at a time, so they are not consolidated with other fund offerings. For a simplified document, these are quite long, at over 10 pages. Our local analysts observe that the simplified prospectus is generally written in plain language. However, the section describing the investment objective is written in textbooklike language that is neither clear nor specific enough for an experienced investor to understand the fund's strategy. Risks, on the other hand, are explained clearly and are specific to the fund in question rather than general enough to apply to many funds. The simplified prospectus has poor information on expenses.

The Total Expense Ratio is not reported within the document. Furthermore, the simplified prospectus does not contain an illustration of fees nor is information regarding trading costs included. Unlike many countries, the simplified prospectus is required to include a performance history for standardized periods, the names and tenures of the portfolio manager, and the top-10 equity holdings and top-five bond holdings.

All fund investment products in China are subject to a single disclosure regime. Offering documents must be updated annually. The shareholder reports contain financial statements with a prior-year comparison, and China meets best practices by requiring quarterly shareholder reports. In fact, our analysts observe that the management discussion included in shareholder reports is generally insightful and helpful for investors. Fund costs are presented in total, and there is sometimes information on the various fund operating costs within financial statements such that an investor could determine what portion of assets pays specific costs. Explicit trading costs are available within the shareholder reports.

Expenses are presented according to local accounting regulations, so they are calculated in a uniform manner. In addition, the "Guidelines of Content and Format of Annual Report for Fund Company" issued in 2008 requires all funds to present fees in the same standardized format. The simplified prospectus presents the maximum management fee in a more standardized format, but this is not considered equivalent to the TER. Acquired fund expenses for fund of funds are included in the TER shown in financial statements.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings semiannually, and top 10 holdings on a quarterly basis.

Portfolio-manager information can be found in the prospectus. The portfolio manager's names and tenures are published. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. But the management company's co-investment is included in fund literature.

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

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Fees & Expenses

Only large investors in China have the ability to negotiate sales loads with the sales agent. Purchasing investment advice directly rather than through loads or trails is not a known practice for individual investors in China. Between 25% and 50% of funds report charging a front load. Investors can purchase money market funds and sometimes fixed-income funds without loads or retrocessions, but it is rare for equity funds to have these features. Money market funds and fixed-income funds make up only about 25% of fund assets in China.

Funds in China are not permitted to charge management fees with any performance-based component. Because performance fees, which can add a variable component to fees, are nonexistent in China, investors have a clear understanding of what expenses are expected to be as a percentage of assets.

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 ratios for funds in China are:

Fixed-Income	Equity	Allocation	Money Market
1.05%	1.08%	1.05%	0.79%

Sales & Media

In China, open-end mutual funds are the most common fundlike vehicle for investors to own. In China, fund supermarkets, traditional brokerage, direct sales, and bank distribution choices are widely available. Banks and bank-owned Internet platforms dominate fund sales in China, with direct sales also a large part of the market. But despite bank-dominated distribution, over 80% of funds are sold through an open- or guided-architecture system.

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 USD 500.

"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, and this provision is enforced. There is a regulation in China requiring that all advisors consider the investment suitability before making a recommendation, but this does not compare to some of the guidance coming from other countries.

Directed brokerage arrangements are officially banned in China but do occur sometimes in practice; the same regulations that ban soft dollars ban directed brokerage.

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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 moderate oversight. There is full disclosure of excess compensation agreements for funds to pay higher levels of commissions based upon a distributor's total volume.

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.

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Denmark

Regulation & Taxation

In Denmark, Finanstilsynet is the supervisor of compliance with financial legislation, securities issuers, and the securities market. It compiles market data on the financials sector and consults with the legislature on the development of new laws. In Denmark, it is a common practice that domestic-domiciled funds, typically targeting retail investors, are listed on the local stock exchange, Nasdaq OMX. For these funds additional requirements apply.

The Law on Investment Funds of 17 September 2012 updated and consolidated all investment fund laws in Denmark. In much of Europe, including Denmark, there is an industry perception that fund regulations are constantly changing almost too fast for fund sponsors to keep up with and for investors to familiarize themselves with the changes. Our local analyst notes that most of the changes are behind the scenes and the average investor may not even recognize that many of these changes have occurred, but we suspect this has either added to fund costs or reduced the benefits of economies of scale from European consolidation. The regulator is perceived as not adequately staffed, and staff positions typically pay less than similar level jobs within the industry. 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 not effective and do not succeed at preventing misleading or deceptive fund promotions.

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

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. Soft-dollar arrangements are an accepted practice in Denmark. As a member of the European Union, Denmark's laws and regulations comply with the MiFID; this directive requires that soft-dollar arrangements be used for the benefit of investors and be disclosed, and that managers seek best execution of trades.

All mutual funds in Denmark must have a board of directors, and there is a requirement of a minimum level of independent directors.

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

Denmark allows funds registered in compliance with UCITS IV directive to be marketed to Danish investors. Foreign funds are available, but most sales channels operate with a closed architecture, resulting in the choice of a local or foreign-domiciled fund depending on the distribution channel being used to purchase a fund. There are tax nuances that push investors into locally domiciled funds in certain instances.

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

Denmark taxes dividend income earned within funds at a capital income tax rate of 27% for all dividend and capital gains income below DKK 48,300 per person, and at a rate of 42% above that level. All dividend income and capital gains earned within funds must be paid out to fund shareholders as dividend income for distributing funds. The above-mentioned taxation is on the shareholder level. Interest income is taxed as part of ordinary income, and the rate varies from 33% to 45% depending on financial status. The capital income tax rates mentioned above apply. Capital gains upon the sale of fund shares follow the same marginal rates as other capital income. Capital gains upon the sale of fixed-income funds are taxed as part of ordinary income with taxation level in the range of 33%-45%. Accumulating funds are subject to special tax provisions. Denmark does not have a wealth tax or securities transaction tax applied to fund ownership. In Denmark, a hypothetical investment with a 6.29% annualized pretax return has an aftertax return of 4.55%, which amounts to a reduction of 1.74% annually.

Investment management is generally exempt from Value Added Tax in Denmark.

Disclosure

As a member of the EU, funds in Denmark are compliant with UCITS. Under the UCITS IV Directive, the simplified prospectus was replaced by the Key Investor Information Document, which by regulation must be in place after July 1, 2012. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Total Expense Ratio with Ongoing Charges, a prospective percentage that, unlike the TER, excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the Ongoing Charges percentage. In practice, this is not uniformly enforced, and investors must often search for

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details and calculate the amount they would spend on performance fees on their own. In conclusion, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. The KIID does not contain any disclosure of trading costs.

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

Across the European Union, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end funds and exchange-traded funds. Other products such as ETNs, ETCs, closed-end funds, and structured products have separate regulations. In Denmark, the funds' offering document only needs to be updated upon a material change in the operating terms or investment strategy, rather than annually. Fund companies must publish both annual and semiannual reports, and the financial statements within the annual reports contain a five-year comparison. Management's discussion of performance within reports is typically generic and does not tie the portfolio returns to specific market events and trades. It is common for fact sheets and other marketing material to have more insightful information than the shareholder report.

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

Mutual funds are encouraged to publish a full and complete disclosure of the portfolio holdings. Portfolio holdings must be provided in the annual report at minimum, but more than 80% of funds provide this information monthly to data providers such as Morningstar and typically update top holdings on their websites monthly.

Funds are not required to provide the names and tenures of portfolio managers; names are frequently provided without tenure. Many firms designate funds as team-managed without specifics as to the key individuals on the team. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure also carries to the board and the management company, which also do not provide this information.

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There is no central database for fund literature in Denmark.

Fees & Expenses

Investors in Denmark pay loads along a fixed breakpoint schedule and do not have the ability to negotiate loads with their financial advisors. For funds traded in the secondary market on the local exchange, buy and sell prices (loads) can deviate from the stated loads in the prospectuses. It is also rare for investors to pay financial advice fees other than through commissions or retrocessions. More than 75% of funds domiciled or available for sale in Denmark report a front load. The only funds available in Denmark without commissions are passive funds. They are easy to find but make up a tiny part of investor assets.

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

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

The median asset-weighted expense ratios for available-for-sale and domiciled funds in Denmark are:

Fixed-Income	Equity	Allocation	Money Market
1.15%	1.90%	1.30%	0.42%

Fixed-Income	Equity	Allocation	Money Market
0.64%	1.43%	0.64%	0.42%

Sales & Media

In Denmark, open-end funds are the most common fundlike vehicle for investors to own. Danish investors only have wide access to online brokerage or bank and insurance company sales channels when purchasing funds, although there are also a small number of independent advisors. Banks dominate the market, which has an extreme level of vertical integration. It is estimated that less than 20% of fund sales occur through open or guided architecture sales channels, so in the vast majority of times investors are only offered products branded by the firm distributing the fund.

Mutual funds domiciled in Denmark rarely require an investment minimum of more than a single share. The median investment minimum of available-for-sale funds is less than USD 500. The median investment minimum of Danish-domiciled funds is also below USD 500; in fact, traditionally the minimum has been set at one share.

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"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Denmark, 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 EU have cooling-off periods where certain purchases can be canceled. Advisors and other fund salespeople in Denmark can make any recommendation they feel is appropriate without considering equivalent products available that are most suitable for the specific investor.

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

In Denmark, it is a common practice to use sales contests to motivate the general sales of funds. It is also common to compensate advisors (either monetarily or through awards) for selling particular funds, but these arrangements must be disclosed. Across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice.

Investors in Denmark can find mutual fund articles in their newspapers on a weekly basis. These articles sometimes mention mutual fund fees when they are high, but they rarely promote long-term investing. Typically articles talk about sectors rather than individual funds and almost never talk about long-term investing.

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France

Regulation & Taxation

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

The laws that define fund regulation in France are piecemeal and not consolidated. In much of Europe, including France, there is an industry perception that fund regulations are constantly changing almost too fast for fund sponsors to keep up with and for investors to familiarize themselves with the changes. Our analysts note that even with all of the changes, the regulation still only addresses some of the 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 analysts, 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 an independent party at least once a year. In France, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two organizations can be subsidiaries of the same holding company. There are protections within pan-European regulation that work to ensure that asset management and depository operations are sufficiently separated.

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related 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-dollar arrangements are not a prohibited practice, firms in France are restricted to using these arrangements for research that directly benefits shareholders. These arrangements are perceived as very uncommon in France.

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 allows funds registered in compliance with UCITS IV to be marketed to French investors.

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Foreign-domiciled funds are common in France, and investors are neutral to the domicile of the funds they purchase.

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

In addition to retirement savings incentives, French investors with a medium-term time horizon have the opportunity to place their savings in PEA accounts, which offer strong tax benefits. Each individual can put EUR 132,000 into a PEA account. Withdrawals from PEA accounts in the first five years face tax rates that can be higher than the investor's marginal income rate, but when funds are in the account for more than five years they can significantly defer taxes. All interest income, dividend income, and realized capital gains within funds are exempt from income, dividend, and capital gains taxation while the earnings accrue in the PEA account. Investors withdrawing between five and eight years of ownership are subject to social security contributions on the accrued gains at a rate of 15.5%, which would otherwise be in addition to standard taxation on investments outside PEA accounts. Our hypothetical scenario assumes that investors have a five-year horizon and are rationally minimizing taxes on fund investments. The result is that our hypothetical five-year investment return with a pretax gain of 6.29% annually is reduced by 0.52% annually because of social security taxes upon liquidation in year five. This results in an aftertax annualized return of 5.77%.

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

Disclosure

As a member of the European Union, funds in France are compliant with UCITS. Under the UCITS IV Directive, the simplified prospectus was replaced by the Key Investor Information Document, which by regulation must be in place after July 1, 2012. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

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

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

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end and exchange-traded funds. Other products such as ETNs, ETCs, closed-end funds, and structured products have separate regulations. In France, a fund's offering document needs to be updated annually. Fund companies must publish both annual and semiannual reports, and the financial statements within these shareholder reports contain a prior-year comparison. Management's discussion of performance within reports is typically generic and does not tie the portfolio returns to specific market events and trades.

Regulation in France requires that all expenses be disclosed in total currency within the financial statements. Since the introduction of KIID, our analysts note that it is now more difficult for investors to identify the components of the TER. Trading costs are hard to identify within financial statements and are not disclosed in any other manner. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund.

Mutual funds are required to disclose to the AMF full and complete disclosure of the portfolio holdings annually, but investors only receive partial information. Shareowners can request a full statement of investments, but prospective owners do not have these rights.

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 managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure also carries to the management companies, which also do not provide this information.

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

Fees & Expenses

Only very large or institutional investors in France have the ability to negotiate loads with their financial advisors. It is also rare for investors to pay financial advice fees other than through commissions or retrocessions. More than 75% of available-for-sale and domiciled funds charge a front load. Funds without loads or trailers are widely available in France and constitute a moderate part of investor assets.

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; only sophisticated investors reviewing a fund's performance can estimate costs for the current year.

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

The median asset-weighted expense ratios for available-for-sale and domiciled funds in France are:

Fixed-Income	**Equity**	**Allocation**	**Money Market**
1.09%	1.85%	1.64%	0.17%

Fixed-Income / Domiciled	**Equity** / Domiciled	**Allocation** / Domiciled	**Money Market** / Domiciled
0.62%	1.77%	1.64%	0.16%

Sales & Media

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

In France, an investor has a 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. It is estimated that between 20% and 50% of funds in France are sold through a distributor with an open-architecture system.

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Most mutual funds in France require an investment minimum, but platforms offer lower minimums. These minimums are sometimes waived or reduced for investors in an automatic purchase plan. The median investment minimum of both French-domiciled funds and funds available for sale in France is less than USD 500.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In France, this type of advertising to retail investors is not allowed, and this regulation is strictly enforced. Advisors and other fund salespeople in France are required to consider all equivalent products available when making fund recommendations to investors.

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

Across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice. Sales contests or other incentives related to selling a specific fund fall under this MiFID rule. The practice of using sales contests to motivate the general sales of funds is an accepted practice 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 they sometimes promote long-term investing.

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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.

The German Asset Management Association 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.

Investmentgesetz is the name of the statute outlining the law pertaining to investment funds. In addition, the laws of Germany conform to European Union directives including UCITS and MiFID. BaFin is the regulator responsible for investment funds on a national level, while ESMA has become increasingly relevant on a European level. In much of Europe including Germany, there is an industry perception that fund regulations are constantly changing almost too fast for fund sponsors to keep up with and for investors to familiarize themselves with the changes. Regulators are somewhat well-staffed but not proactive in identifying violations. Most enforcement actions are public. The regulation of sales and advertising practices in Germany is perceived as somewhat ineffective, but courts have been willing to go beyond current legislation to protect investor rights.

All countries in this survey, including Germany, require funds to be audited by an independent party at least once a year. In Germany, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, 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 interests of investors and requires that companies seek best execution when trading securities. As a member of the EU, Germany'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. While soft-dollar arrangements are not a prohibited practice, like many other countries in this survey firms are restricted to using these arrangements for research that directly benefits shareholders. These arrangements must be disclosed.

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MORNINGSTAR

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.

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

The German government does offer tax-deferred saving schemes called Riester Rente and Rürup Rente to encourage individuals to invest toward retirement. The fund products that are allowed under the retirement scheme offer a pretax income deferral based on age. The Riester Rente savings plans are required to guarantee a minimum payout corresponding to the full disbursement of contributions and government subsidies, and the investment choices are limited.

Germany taxes interest and dividend income earned within funds regardless of distribution at a capital income rate (including surcharge) of 26.4%. Capital gains earned within fund shares are not taxed. Capital gains upon liquidation of shares are taxed at the same capital income rate. In Germany, our hypothetical fund investment with a 6.29% annualized pretax return has an aftertax return of 4.72%, which amounts to a reduction of 1.57% annually. Most taxes are withheld at the income source in Germany.

Investment management is generally exempt from Value Added Tax in Germany.

Disclosure

As a member of the EU, funds in Germany are compliant with UCITS. Under the UCITS IV Directive, the simplified prospectus was replaced by the Key Investor Information Document, which by regulation must be in place after July 1, 2012. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Total Expense Ratio with Ongoing Charges, a prospective percentage that excludes performance fees. The KIID is required by regulation to include the performance fee as a separate percentage figure that is on equivalent terms with the Ongoing Charges percentage. In practice, this is not uniformly enforced, and investors must often search for details and calculate the amount they would spend on performance fees on their own. In conclusion, the KIID does not consistently help investors in determining the exact amount they should expect to spend on fees.

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

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

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

Within the financial statements, the monetary costs that compose the TER are disclosed in total and sometimes have specific breakdowns so investors can tell how much is being paid for the major expenses. A turnover ratio is available within the shareholder reports so that investors can estimate trading costs. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings. This information is required in the semiannual and annual reports.

Funds are not required to provide the names and tenures of portfolio managers. Names are frequently provided without tenure. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure also carries to the board and the management company, which also do not provide this information.

There is no central database for fund literature in Germany.

Fees & Expenses

Investors in Germany can negotiate the commission with the sales agent upon purchase. It is rare for investors to pay financial advice fees other than through commissions or retrocessions. Over 75% of funds report charging a front load. Funds with no loads or retrocessions exist in Germany, but they

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are difficult for investors to locate and make up a small percentage of assets, resulting in charges for advice even when none is taken.

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

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

The median asset-weighted expense ratios for available-for-sale and domiciled funds in Germany are:

Fixed-Income 1.12%	**Equity** 1.83%	**Allocation** 1.64%	**Money Market** 0.37%
Fixed-Income / Domiciled 0.70%	**Equity** / Domiciled 1.44%	**Allocation** / Domiciled 1.38%	**Money Market** / Domiciled 0.57%

Sales & Media

In Germany, insurance-linked fund products are the most common fundlike 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 and Versicherungsvertragsgesetz (the insurance contract act in Germany that pertains to regulation of insurance products) have not prevented the continued proliferation of these high-cost products. Additionally, there are tax benefits for retirement savings sold with an insurance wrapper. In Germany, an investor has multiple distribution options to choose from, including fund supermarkets, independent advisors, and banks and insurance companies. Banks and insurance companies dominate fund sales in Germany. It is estimated that between 20% and 50% of funds in Germany are sold through a distributor with an open- or guided-architecture system.

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

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"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Germany, this type of advertising to retail investors is not allowed and this is enforced. Additionally, in many instances consumers in the EU have cooling-off periods where certain purchases can be canceled. Advisors and other fund salespeople in Germany can make any recommendation they feel is appropriate without considering equivalent products available that are most suitable for the specific investor.

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

In Germany, the practice of compensating advisors (either monetarily or through awards) for selling particular funds is not banned. However, across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice. The practice of using sales contests to motivate the general sales of funds is allowed with little known oversight or guidance.

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

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Hong Kong

Regulation & Taxation

In Hong Kong, the Securities and Futures Commission 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. In addition to the SFC, the Hong Kong Monetary Authority shares some powers over funds. The two organizations are generally in agreement over regulatory issues. Our analysts report that it is difficult to determine which regulatory body has which responsibility.

Hong Kong doesn't have a single statute regulating funds, but there are multiple laws that together empower the SFC and Monetary Authority to enforce specific rules. In Hong Kong regulations are regularly updated to address known problems. The regulators are only somewhat adequately staffed, and enforcement actions are often delayed for up to three to six months. All enforcement actions are public as is required by the SFC Code. The regulation and supervision of fund advertisements are perceived as effective and prevent the worst violations.

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

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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 this is disclosed in the investment management agreement. In addition, there are strict limitations against using soft-dollar arrangements for travel, entertainment, and general administrative goods or services. While soft-dollar arrangements are not a prohibited practice, firms are restricted to using these arrangements for research that directly benefits shareholders.

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.

Hong Kong allows funds domiciled in other countries to register for sale to Hong Kong investors. This process is streamlined for UCITS-compliant funds. Foreign-domiciled funds are common in Hong Kong, and investors are neutral to local and foreign-domiciled funds.

There are tax incentives for retirement in Hong Kong. The government offers the Mandatory Provident Fund, and contributions up to 5% of an individual's salary (capped at HKD 1,250) are exempt from income taxes. The MPF is a defined-contribution product, and fund advisors must be approved to operate by the government. The fund choices offered under the MPF structure are more limited than those offered for nonretirement funds. Disclosure rules and other regulations are also different for nonretirement funds. The Mandatory Provident Fund Authority recently introduced the Employee Choice Arrangement, which (effective Nov. 1, 2012) allows the option of transferring accrued benefits in their current MPF scheme to an MPF scheme of their own choice. This arrangement was introduced in hopes of encouraging more MPF choices for investors, along with further competition and reduction of fees.

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

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

Disclosure

Hong Kong is one of the few markets in this survey that does not have a simplified offering document. Investors and advisors rely on Fact Sheets or Offering Memoranda to select funds. This lack of disclosure is surprising for a market that is completely open to foreign funds, which are typically required to provide a simplified prospectus.

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Disclosure in Hong Kong differs depending on the fund structure. Open-end funds have different disclosure requirements than closed-end funds, exchange-traded funds, or other retail investment fundlike products. The offering document in Hong Kong only is updated when there is a change in the investment objective or additional share classes are launched. Fund companies must publish both annual and semiannual reports, and the financial statements within these shareholder reports contain a prior-year comparison. Management's discussion of performance is not required, but it is typically provided. The discussion is generic and does not tie the portfolio returns to specific market events and trades, which is intriguing because this is voluntary disclosure.

Within the financial statements, the monetary costs that compose the Total Expense Ratio are disclosed in total. It is generally uncommon to find a breakdown of the components of the management and administrative costs. Explicit trading costs are included within the financial statements showing investors the total commissions. Expenses in Hong Kong lack any standardized disclosure, and it is unclear whether there is consistency on reporting acquired fund expenses for funds of funds.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings semiannually, and these can be found in both the semiannual and annual reports.

Funds are not required to provide the names and tenures of the portfolio manager. This information is rarely found in required documents, but they are commonly found in marketing material, particularly Fact Sheets. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure also carries to the board and the management company, which also do not provide this information.

In Hong Kong, fund offering documents can be found on the SFC website. However, the website only hosts fund offering documents, and investors have to search further for additional fund literature. Additionally, we find that the documents are frequently delayed significantly.

Fees & Expenses

Investors in Hong Kong can negotiate the commission with the sales agent upon purchase. It is also rare for investors to pay financial advice fees other than through commissions or retrocessions. Between 50% and 75% of funds domiciled in Hong Kong and over 75% of funds available for sale in Hong Kong report charging front loads. Although no-load funds do exist, we find that they are difficult for Hong Kong citizens to locate and thus make up a minimal part of investor assets.

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

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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 typically lower than those offered from foreign fund sponsors.

The median asset-weighted expense ratios for funds in Hong Kong are:

Fixed-Income 1.40%	**Equity** 1.94%	**Allocation** 1.73%	**Money Market** 0.25%
Fixed-Income / Domiciled 1.18%	**Equity** / Domiciled 1.14%	**Allocation** / Domiciled 0.81%	**Money Market** / Domiciled 0.42%

Sales & Media

In Hong Kong, investors frequently prefer insurance products to standard mutual funds. Most are sold as no-load products with principal protection. Investors only have fund supermarkets, banks, and insurance companies as widely available distribution options. Banks and insurance companies tend to dominate fund sales. Despite these traditionally closed channels' dominance, it is estimated that more than 80% of funds are sold by a distributor with open or guided architecture. Distributors typically have a guided-architecture platform, offering selected funds from many fund sponsors.

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 between USD 1,000 and USD 2,000.

"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 technically restricted, but in practice investors receive the prospectus shortly after the purchase. Advisors and other fund salespeople can make any recommendation they feel is appropriate without considering equivalent products available that are most suitable for the specific investor.

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

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 permitted.

Investors in Hong Kong can find mutual fund articles in their newspapers on a weekly basis, an improvement from past surveys. The recent Employee Choice Arrangement affecting MPF schemes has spurred a lot of interest in retirement funds, particularly in Chinese-language papers. These articles sometimes mention mutual fund fees when they are high, and they sometimes promote long-term investing.

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India

Regulation & Taxation

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

In addition to SEBI, the Association of Mutual Funds in India 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 as follows:

- To define and maintain high professional and ethical standards in all areas of operation of the mutual fund industry.
- To recommend and promote best business practices and codes of conduct to be followed by members and others engaged in the activities of mutual funds and asset management including agencies connected to or involved in the field of capital markets and financial services.
- To interact with SEBI and to represent 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 others 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.

The Securities and Exchange Board of India (Regulations) 1996 is the comprehensive statute governing the funds industry. All enforcement actions are handled by SEBI as the sole regulator. Indian regulations are up-to-date, and the financial authorities have been proactive in recent years about keeping fund regulations current. The regulators are considered adequately staffed and have even been proactive in identifying improprieties. Most enforcement actions are public in India and can be found on the SEBI website. The regulation and supervision of fund advertisements are perceived as effective and prevent misleading advertising.

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

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related favors such as entertainment. The AMFI 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 these are typically disclosed. While soft-dollar arrangements are not a prohibited practice, firms are bound by the professional code of conduct to using these arrangements for research that directly benefits shareholders. Despite the professional code of conduct, there is not full confidence that all firms abide by these principles.

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 300 million overseas.

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

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

Indian investors rarely pay taxes directly on fund investments. Fixed-income funds are permitted to accrue all income within the fund, only distributions and withdrawals are subject to taxes. For equity funds in India, domestic dividends are subject to withholding tax of 15% by the issuing corporation. This means the fund receives a dividend that is fully assessed for taxes, but it still reduces available return for investors. Indian investors are not responsible for capital gains earned within funds, but they do face taxes upon liquidation of shares. Investors need to calculate which tax is most beneficial: a 10% rate on the full gains or a 20% rate on gains after the cost basis is indexed for inflation. Additionally the sale of equity funds is subject to a 0.25% securities transaction tax. The STT is not applicable for fixed-income funds. This survey uses a five-year hypothetical investment portfolio with annualized pretax returns of 6.29%. The estimated aftertax return for Indian investors is 5.71%, for a reduction of 0.58%.

Fund management services in India are subject to a service tax.

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Disclosure

In India, the simplified offering document is known as a Key Information Memorandum. These typically accompany the application form when investing in a fund. These documents are not required to be one fund at a time, and there is no typical practice of companies providing it as a stand-alone document. Our analysts observe that some fund companies combine the KIM for multiple investments. The typical KIM is less than five pages in length. The language in the document is clear for modestly experienced investors and free of too much complex jargon. Despite the plain language, the investment objective is not sufficient for professional investors to know the specific investment strategy of most funds. The section on risks within the KIM is considered more effective, but they often apply to all investment funds and are not specific to an individual fund.

Within the KIM there is presentation of the historic Total Expense Ratio. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is not available. There is not a specific disclosure of trading costs or a proxy such as a turnover ratio found in the KIM. Unlike many regions, the KIM contains standardized returns for one-year, three-year, five-year, and since-inception periods. The KIM includes the name of the portfolio manager but not the tenure. This is unusual because we observe that marketing materials frequently include the managers' start dates. The KIM does not contain information on holdings in the portfolio.

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

Within the financial statements, the monetary costs that compose the TER are disclosed in total; there is rarely a breakdown of the components of the management and administrative costs. Trading costs are not disclosed, but there is sufficient information on the purchase and sales of shares that professionals can calculate a turnover ratio. Expenses in India lack formal regulations on standardized presentation, but most funds have adopted disclosures that are very similar if not identical to each other. Acquired fund expenses are not included in the TER for funds of funds.

India is the only country in the survey that requires monthly disclosure of full portfolio holdings. Prior to monthly disclosure becoming mandatory, we had found that most companies had already disclosed holdings as a best practice. It is encouraging to see such transparency of portfolio holdings.

Funds in India are required to provide the name of the portfolio manager within the SID and typically include a start date within marketing materials. Neither the managers' compensation structure nor

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the managers' investment within the fund is provided to investors. The lack of ownership disclosure also carries to the board and the management company, which also do not provide this information.

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

Fees & Expenses

In India, front-load charges have not been permitted since August 2009. Funds are still allowed to charge deferred loads, and investors cannot negotiate these with the sales agent. In the earlier regime, front-load charges were typically paid to advisors or brokers as commissions; at present, fund companies can yet pay front-end commission, but the same can no longer be charged to funds. The prohibition on front loads theoretically reduces incentives driving advisors to rotate investors' funds frequently, fund churn, but pushes compensation into trail commissions. Trail commissions are generally not transparent to investors and are a potential source of conflicts of interest. Investors in India sometimes pay for advice in addition to loads and TERs; these make up only a moderate amount of investor assets. Despite the prohibition of front loads, share classes of funds without commissions are just coming to the market in the first half of 2013. Prior to this year, even when investors purchased funds directly without advice they still bore the cost of retrocessions within fund TERs.

Funds in India are not permitted to charge performance fees.

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

The median asset-weighted expense ratios for funds in India are:

Fixed-Income	Equity	Allocation	Money Market
0.89%	1.93%	1.89%	0.30%

Sales & Media

In India, insurance-linked products are the most common fundlike vehicle for investors to own. Our analysts observe that since the end of front loads in 2009, distributors have focused on selling insurance products, which have higher fee structures. But as these changes coincided with the global financial crisis, it is unclear whether the protection the insurance wrapper offers also has driven this change. In India, an investor has a full range of distribution options, including fund supermarkets, independent advisors, brokerage firms, and direct to fund, as well as banks. Independent advisors and bank company sales channels tend to dominate fund distribution. It is estimated that over 80% of funds in India are sold through a distributor with an open-architecture system.

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

"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. Advisors and other fund salespeople in India can make any recommendation they feel is appropriate without considering equivalent products available that are most suitable for the specific investor.

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

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 they rarely promote long-term investing.

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Italy

Regulation & Taxation

In Italy, regulatory responsibility is divided between the central bank, Banca d'Italia, and the market regulator, Commissione Nazionale per le Societa' e la Borsa (Consob). 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, 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 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 IV.

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

Consob aims to protect investors and the efficiency, transparency, and development of the market. Consob regulation authority includes: provision of investment services and activities; provision of portfolio management services; drawing up and publication of prospectuses; storing and filing of regulated disclosures; determination of the minimum financial resources of regulated market management companies and of central depositories; and drawing up and publication of the semiannual and quarterly reports. Consob is also the agency responsible for oversight of fund advertising and sales practices.

Consob is formally independent. It is composed of five members appointed by the President of the Republic on the proposal of the 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.

The comprehensive statute that outlines the framework for regulation of the fund industry is Testo Unico della Finanza. In addition, the laws of Italy conform to the EU directives including UCITS and MiFID. Consob is the sole regulator enforcing the fund industry. In much of Europe, including Italy, there is an industry perception that fund regulations are constantly changing almost too fast for fund sponsors to keep up with and for investors to familiarize themselves with the changes. The

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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 organizations can be subsidiaries of the same holding company. The law also includes other measures to avoid conflicts of interest between the auditor and the audited company, such as imposing maximum lengths for contracts and forbidding advisory contracts. Furthermore, there are protections within pan-European regulation that work to ensure that asset management and depository operations are sufficiently separated.

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

In Italy, funds are not required to have boards of directors.

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

Italy allows funds registered in compliance with the UCITS directive to be marketed to Italian investors. Foreign-domiciled funds are common in Italy, and investors historically preferred foreign-domiciled funds because of corporate tax treatment received by Italian funds.

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 fundlike products.

Investors in Italy are responsible for taxes on income, dividends, and realized capital gains earned within funds on an annual basis. Interest, dividend, and short-term capital gains income are taxed at a capital income rate that is different from the marginal income tax. The capital gains treatment also applies to gains upon the liquidation of fund shares. This is an improvement as prior to 2012, investors in funds were treated like professional traders responsible for taxes on realized and unrealized gains. Our hypothetical investment with a 6.29% annualized pretax return has a 0.80% annual reduction because of the ongoing and liquidation taxes, resulting in an aftertax annualized return of 5.49%.

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

Disclosure

As a member of the EU, funds in Italy are compliant with UCITS. Under the UCITS IV Directive, the simplified prospectus was replaced by the Key Investor Information Document, which by regulation must be in place after July 1, 2012. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

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

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

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

Within the financial statements, the monetary costs that compose the TER are disclosed in total and on a per-share basis. These rarely include specific breakdowns so investors can tell how much is

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

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

Funds are not required to provide the names and tenures of portfolio managers, and it is not common practice for fund companies to disclose this information. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure also carries to the board and the management company, which also do not provide this information.

The Italian funds association, Assogestioni, began a centralized website in 2010. Funds have begun distributing their literature through the site, but our analysts note that it is still incomplete and can take significant time to update documents otherwise available directly from fund companies.

Fees & Expenses

In Italy, investors have the ability to negotiate loads with the sales agent. It is rare for investors to pay financial advice fees other than through commissions. In Italy, between 50% and 75% of domiciled funds report charging front loads, and over 75% of funds available for sale report charging a front load. Investors purchasing funds without advice can locate products without loads or trail commissions, but these constitute a small percentage of investor assets.

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

In Italy, individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in Italy. The TERs of funds domiciled in Italy are generally lower than those offered by foreign fund sponsors.

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The median asset-weighted expense ratios for available-for-sale and domiciled funds in Italy are:

Fixed-Income 1.20%	**Equity** 1.94%	**Allocation** 1.66%	**Money Market** 0.46%
Fixed-Income / Domiciled 0.99%	**Equity** / Domiciled 2.13%	**Allocation** / Domiciled 1.49%	**Money Market** / Domiciled 0.41%

Sales & Media

In Italy, there has been a resurgence in popularity of insurance-linked products and ETFs, and these are receiving the majority of new investments. 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. Funds are still the largest by total assets invested. In Italy, an investor has many distribution options, traditional brokerage houses, fund supermarkets, and banks and insurance companies being widely available. Traditional brokerage and banks and insurance company sales channels dominate fund distribution. It is estimated that between 50% and 80% of funds in Italy are sold through a distributor with an open- or guided-architecture platform.

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 less than USD 500, and the median investment minimum of Italian-domiciled funds is also less than USD 500.

"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. Additionally, in many instances consumers in the EU have cooling-off periods where certain purchases can be canceled. Advisors and other fund salespeople in Italy are required to consider equivalent products available that are most suitable for the specific investor prior to making advice.

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

In Italy, the practice of using sales contests to motivate sales of funds is allowed with little regulation and oversight, but compensating advisors (either monetarily or through awards) for selling particular funds is strictly regulated to protect investors. The regulations require that investments may only be sold when they meet the needs of the clients, so despite the existence of sales

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contests, advice is still required to be tailored to investor needs; this has been an area of recent regulatory focus.

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

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Japan

Regulation & Taxation

Financial Services Agency 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 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."

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). It is a comprehensive statute that sets out all of the regulatory authority and framework for the specific regulations promulgated by the FSA. In Japan, locally domiciled funds are generally overseen by the ITA, but foreign-domiciled funds available for sale in Japan are supervised by JSDA. This difference causes a lack in uniformity of some disclosure information. The mutual fund industry is also self-regulated by the Investment Trusts Association with the mission "to protect investors and to contribute to the sound development of investment trusts and investment companies." Most regulations are enforced by the FSA. 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. Fund advertising and sales practices are self-regulated by the ITA and the Japan Securities Dealers Associations. 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 an 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, but the two may be from affiliated companies. However, even if the two are in the same financial group, inappropriate action would hardly hold because of the strict regulations.

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 and no requirement that these arrangements benefit fund shareholders.

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

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

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 because of the wider analyst and media coverage of Japanese-domiciled funds.

In Japan, there are specific tax incentives to encourage investors to save for retirement. The tax benefit is tied to an employee-defined contribution account rather than an investment fund. The system is limited to employees of corporations with these plans or professionals eligible for an industry individual defined-contribution plan. The underlying fund 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.

Investors in Japan can defer all taxes on income, dividends, and capital gains earned within funds until the liquidation of fund shares. When investors choose distribution, they are responsible for taxes annually. There are no additional taxes for typical fund investors. The result is that a hypothetical investment with a 6.29% pretax annualized return is only subject to long-term capital gains taxes upon fund liquidation. This reduces the gain by 0.33% annually.

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

Disclosure

Japan, like most countries in this survey, requires publication of a simplified prospectus. The Japanese term for this document is Koufu Mokuromisho (delivered prospectus). In most cases these documents are for single funds, but certain types of series are permitted to be consolidated in a combined document. The simplified prospectus is typically between five and 15 pages in length; this is much shorter than we observed in prior years. The simplified prospectus is supposed to be in plain language, but sometimes it does not succeed on this front. The strategy section is sometimes sufficient for a professional to identify the specific investment approach and focus of the fund. There is a section on risk disclosure within the simplified prospectus, and these sometimes explain risks clearly for investors. Unfortunately, most funds continue to publish general investment risks rather than risks specific to the funds' investment policies.

The simplified prospectus does not present a Total Expense Ratio in percentage format, either on a historic or prospective basis. The expense presentation is in monetary terms. Presently Japan is the only country in this survey that does not present a TER in any fund literature. The inclusion of expenses in a ratio format is currently under consideration by the regulators. The simplified prospec-

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tus does not contain an illustration of fees for a standard investment, but it does contain information on total commissions paid. Returns are within the simplified prospectus but management has flexibility in defining what periods are to be included. The document seldom contains the name of the manager and provides no information on tenure. The simplified offering document does not contain information about portfolio holdings.

All retail investment products in Japan are subject to the same disclosure requirements. Offering documents of funds are required to be updated annually. The financial statements within fund literature do not contain a comparison to prior-year periods. Funds in Japan typically provide investors with monthly shareholder reports that contain information about performance and top holdings. Semiannual and annual reports are required, and these contain financial statements and full portfolio holdings. Despite the frequency of monthly reports, the information within the manager's commentary is typically generic and fails to connect performance to investment decisions.

Although Japan does not publish a TER, the annual report contains the main expenses composing the TER in a standardized format. Each fund is required to show the price of management, administration, and other major expenses as the number of yen paid per 10,000 units invested. Investors with the knowledge to read financial statements can determine the costs of various fund services with a high level of specificity. Funds of funds have started to include all acquired fund expenses, but there is ambiguity within these regulations. Explicit commissions are presented within the financial statements.

As mentioned above, full portfolio holdings are presented in the semiannual and annual reports, and the monthly shareholder disclosures typically contain top holdings. However, if a fund of funds invests in foreign-domiciled funds, sometimes semiannual and annual reports only show its top holdings.

Funds are required to publish the name of the portfolio managing company in the simplified prospectus as well as other fund literature. There is almost never information on the name and tenure of an individual fund manager. Our analysts observe that the fund industry has been strongly opposed to any disclosure of the managers' tenures or start dates. In the past, we've reported that there has been high turnover of portfolio managers in Japan. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure carries over to the management company, which also does not provide this information.

Investors in Japan can gain access to all fund literature on a government-sponsored website here[1], and an ITA sponsored website here[2]. However, it is difficult to navigate and locate the desired information on these websites.

1. http://info.edinet-fsa.go.jp; 2. http://tskl.toushin.or.jp/FdsWeb/view/FDST000000.seam

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Fees & Expenses

In Japan, only large investors have the ability to negotiate sales loads with their financial advisors. Typically brokerage firms do offer discounts on loads based upon the size of the purchase. These are set by the end distributor and not the fund prospectus. 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. It is rare for investors to pay for advice other than through loads or trail commissions. Funds without loads and trail commissions exist in Japan, but they are only a small part of investor assets. These products are typically only available from web-based distributors.

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

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

The median asset-weighted expense ratios for available-for-sale and domiciled funds in Japan are:

Fixed-Income 1.51%	**Equity** 1.84%	**Allocation** 1.82%	**Money Market** 0.85%
Fixed-Income / Domiciled 1.39%	**Equity** / Domiciled 1.57%	**Allocation** / Domiciled 1.38%	**Money Market** / Domiciled 0.33%

Sales & Media

In Japan, insurance products are the most popular fundlike product for investors to own. Our analysts believe this is because in insurance products clients are depositors rather than investors, and the term "insurance" indicates a lower level of risk. In Japan, an investor has access to most distribution options, including fund supermarkets, 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 brokerage sales channels dominate fund distribution, but there has been a movement to online brokerage and direct sales from the fund companies by younger investors, although the asset base is still small. It is estimated that over 80% of funds in Japan are sold through a distributor with an open- or guided-architecture system.

Most mutual funds in Japan require investment minimums, and these are rarely waived for automatic investment plans. The median investment minimum of funds available for sale in Japan is less than USD 500. The median investment minimum of Japan-domiciled funds is less than USD 500 for one unit (but called 10,000 unit = JPY 10,000 initial investments).

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"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. Financial planners and other salespeople in Japan are permitted to make any recommendation they want without consideration of equivalent products.

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

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

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 they sometimes promote long-term investing.

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Korea

Regulation & Taxation

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

The Korean mutual fund industry is governed by the Financial Investment Services and Capital Markets Act. Korean regulations are generally up-to-date, and regulations are regularly updated to reflect changes in the investment industry. Enforcement actions by the regulator are comprehensive enforcement actions, but there is little proactive oversight identifying improprieties. Most enforcement actions are public in Korea. The regulation and supervision of fund advertisements is generally perceived as being effective at preventing misleading advertising.

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

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 Korea, this practice is allowed but only known to happen occasionally. Soft-dollar arrangements must be disclosed within two months to KOFIA and on the fund's website. There is no requirement that soft-dollar arrangements be used for research purposes.

In Korea, most funds structured as investment trusts have a beneficiary general assembly, and funds structured as investment companies are required to have supervisory boards. Only the latter is required to have a minimum level of independence.

In Korea, there is no limitation on funds investing in securities issued in foreign countries. Korea allows the sale of funds domiciled in other countries, but they must register separately and UCITS funds do not receive automatic registration. Foreign-domiciled funds are not easily available directly,

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and investors prefer funds domiciled in Korea. The available foreign-domiciled funds are most commonly used in fund of fund or master-feeder structures.

In Korea, there are specific retirement savings funds where the investor is eligible for a tax exemption. Initially, the taxes on the contributions are deferred; if the contribution is withdrawn in the first 10 years, it is subject to taxes, but after 10 years the deferral turns into a full exemption. Tax incentives to save for retirement are restricted to these types of funds, and the selection and choice are not identical to those of fully taxable investments. Other than the limitation of investment choices, retirement savings funds are subject to the same regulations as all other funds.

In Korea, investors are responsible for paying taxes on interest and dividends earned within funds annually on a capital income rate that is different from the earned income rate. Both short-term and long-term capital gains earned within funds are deferred until the sale of fund shares. Upon liquidation of shares, investors pay a reduced capital gains rate on previously untaxed appreciation if shares are held for over five years. Fund investors receive a tax preference through the deferral of capital gains taxes until the sale of fund shares. There are no additional taxes on investment funds in Korea. Postliquidation returns of a hypothetical fund portfolio in Korea are 0.39% lower than a completely tax-free scenario's annualized total return of 6.29%.

Unlike some countries in this study, fund management services in Korea are not subject to a Value Added Tax or services tax.

Disclosure

In Korea, the simplified prospectus is a required document. Furthermore, it is required to pertain to only one fund at a time (with the exception of feeder funds, which contain information about its master funds in the same simplified prospectus). However, it is written in plain enough language for an experienced investor to understand. The strategy and objective section provides enough information that a professional has a clear understanding of the fund's investment strategy. The simplified prospectus also explains risks clearly and provides a breakdown of risks specific to the fund rather than a general list that could cover a wide range of funds. The Total Expense Ratio found in the simplified prospectus is a prospective ratio for new funds and a historic ratio thereafter. Also generally present within the simplified prospectus is a monetary illustration of fees based upon an assumption of standard monetary value and return.

The simplified prospectus contains trading costs in the form of explicit commissions. It also contains returns for standard periods, which in the majority of cases in Korea are one-, two-, three-, five-, 10-year, and since-inception returns. Some funds only show returns at the end of every fiscal year.

Disclosure on the simplified prospectus is less helpful when it comes to management of the fund. Fund companies are required to report the name of the fund manager in the simplified prospectus, and only the manager's three-year tenure is provided whenever there is a change in management.

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At a typical length of 10-15 pages, with some over 25 pages, the simplified prospectus in Korea is not concise enough to be friendly to investors. Monthly reporting of full portfolio holdings to KOFIA is a common practice in South Korea, but holdings are only provided to analysts. Only the top 10 holdings are typically available for retail investors to review.

Prospectuses are required to be updated annually, as well as when there is a specific change or amendment.

In addition to the simplified prospectus, fund companies in Korea are required to provide annual and quarterly shareholder reports. Shareholder reports typically include comparisons for the previous year. Fund companies are not required to publish a section on management's discussion of fund performance in shareholder reports. According to our analysts, the fund literature typically shows enough detail that an investor can understand which portion of fees pays for specific management and administrative expenses of the fund. Shareholder reports include the TER (generally with a prior-year comparison) and the monetary costs used to calculate this ratio are presented in financial statements. The TER includes acquired fund of fund expenses as well. Regulation requires that there be a uniform presentation of fees within fund literature.

In Korea, mutual funds are required to report a full and complete disclosure of portfolio holdings at least quarterly. In practice, mutual funds report portfolio holdings monthly to KOFIA and allow the general public to view the top 10 holdings monthly.

Recent regulations have been introduced that also require the manager's management history for the past three years to be disclosed in the simplified prospectus and quarterly report whenever there is a change in management of the fund. This allows investors to verify whether recent portfolio returns can be attributed to the current manager, but this limits evaluation of longer periods. This information is usually available on the KOFIA website as a separate section. Disclosure of compensation of managers or the managers' level of investment in the fund are not required and rarely provided.

Investors in Korea can gain access to all fund literature on the government-sponsored websites here[1] or here[2]. These websites are kept up-to-date and contain all the most recent fund literature, although some literature for older funds may be missing.

Fees & Expenses

In Korea, sales loads and breakpoints are stated in the prospectus, but in practice investors are able to pick and choose between sales agents for lower loads. It is uncommon for investors to pay for advice, and this is typically only done by high-net-worth individuals. Less than 25% of funds domi-

1. http://dart.fss.or.kr/main.do; 2. http://dis.kofia.or.kr/fs/dis2/html/index.html

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ciled in Korea and less than 25% of funds available for sale in Korea report charging a front load. When purchasing funds without advice, investors are able to easily purchase funds with no loads or trail commissions (typically through the Internet), but these cases still make up a small percentage of fund purchases because of the fact that most investors purchase funds through their local bank, securities companies, and other distribution firms.

Retail funds in Korea are not permitted to charge performance fees.

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

The median asset-weighted expense ratios for available-for-sale and domiciled funds in Korea are:

Fixed-Income 1.40%	**Equity** 1.94%	**Allocation** 1.67%	**Money Market** 0.43%
Fixed-Income / Domiciled 0.71%	**Equity** / Domiciled 1.79%	**Allocation** / Domiciled 1.41%	**Money Market** / Domiciled 0.17%

Sales & Media

Traditional open-end funds are the preferred investment vehicle for investors in Korea. The reason for this is mostly that Korean investors, when looking to invest in funds, tend to only consider open-end funds. The only fund distribution channels widely available to investors are banks and brokerage firms with a guided-architecture system where a bank employee or salesperson offers from a reasonably wide variety of fund companies. Funds may sometimes be bought directly from the fund company through the Internet. These investors are growing in number substantially but as of yet make up a small percentage of investor assets. It is estimated that over 80% of funds are sold through a distributor with an open- or guided-architecture system.

Most mutual funds in Korea require an investment minimum, but these minimums are waived or reduced for investors in an automatic purchase plan in many cases. The typical investment minimum amount is less than USD 500 for funds domiciled in Korea and also less than USD 500 for funds available for sale in Korea.

In Korea, it is a requirement that investors receive a prospectus before investing in the fund, and "off-the-page" sales are banned. By tradition, advisors generally consider all appropriate products when making an investment recommendation. In practice, this usually means that the advisor considers all products available through the distribution firm they are associated with.

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Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are permitted in Korea, but they must be disclosed and they are required by regulation to benefit the research of the fund. The standard of benefiting fund investors also applies to sales contests specific to individual funds. It is unclear how this standard applies for sales contests to increase overall sales of funds.

Investors in Korea can find mutual fund articles in their newspapers on an almost daily basis. These articles sometimes mention mutual fund fees when they are high, and they sometimes promote long-term investing (although what the writer considers long-term is often left unclear).

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Netherlands

Regulation & Taxation

The Dutch Authority for the Financial Markets 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 and 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 comply with the MiFID, UCITS directive, and all other European Union directives on funds.

In much of Europe, including the Netherlands, there is an industry perception that fund regulations are constantly changing almost too fast for fund sponsors to keep up with and for investors to familiarize themselves with the changes. The regulators are staffed sufficiently for comprehensive enforcement actions, but there is little proactive oversight identifying improprieties. Certain types of enforcement actions are public in the Netherlands, but small actions are not necessarily disclosed. 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 EU MiFID requires that all funds seek best execution, act in the interests of shareholders, and disclose all brokerage arrangements. While not a prohibition of soft-dollar arrangements, in practice this restricts their use in the Netherlands to actual research and services benefiting investors.

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The Netherlands allows funds registered in compliance with the UCITS IV 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 in the Netherlands are two-tiered with an executive board and supervisory board. The supervisory board must have three people who are independent.

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

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

Dutch investors pay a type of wealth tax on most personal assets above EUR 21,139. Investment assets—regardless of actual returns—are assumed to earn a 4% rate. Investors pay their marginal income tax rate upon the hypothetical 4% return. The wealth tax structure is considered similar to paying taxes on dividends and realized and unrealized capital gains annually. The effect of the wealth tax reduces a pretax return of 6.29% to an annualized aftertax return of 5.19%. 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.

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

Disclosure

Funds in the Netherlands are compliant with UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document, which by regulation must be in place after July 1, 2012. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

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

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

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end and exchange-traded funds. Other products such as ETNs, ETCs, closed-end funds, and structured products have separate regulations. Funds are required to update the prospectus in additional to operational regulatory filings only when the document is amended or changed.

Financial statements for funds in the Netherlands typically provide a comparison to the prior year. In the Netherlands, fund companies must publish both annual and semiannual reports. Management discussion of performance is a required inclusion, and it typically ties fund performance to individual investment decisions in a manner useful for investors.

Shareholder reports typically contain a section on management's discussion of fund performance that is voluntarily provided and generally insightful for investors.

Regulation in the Netherlands requires that fund TERs be included in percentage in the prospectus and in currency in the annual report. These reports provide the total expense ratio for the past three fiscal years. Most expenses are itemized, so investors can understand what portion of fees pays for fund operations. The cost of trading securities is disclosed as a portfolio turnover ratio. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund.

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings semiannually; these holdings can be found in both the semiannual and annual reports.

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Portfolio manager information is not required information in the Netherlands, but it is being more frequently provided than in the past. Typically shareholder reports provide the name but not the tenure of the manager. No information on the compensation of individual managers or their investments alongside investors is available. 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 & Expenses

In the Netherlands, investors have the ability to negotiate loads with the sales agent, and platforms generally offer loads lower than the prospectus maximum. Currently, investors rarely pay for advice in addition to loads and TERs. However, this is changing rapidly because of discussions within the Dutch regulator authority over outlawing retrocession fees by 2014. In anticipation of this possibility, fund companies are in the beginning stages of introducing share classes that exclude retrocession fees from the management fee. Thus far, these share classes are only available within discretionary portfolios and some advisory portfolios but not yet on execution-only fund platforms. Likewise, banks have been considering new business models where a separate advisory fee would be charged to investors rather than obtaining fees through retrocessions.

Over 75% of available-for-sale funds in the Netherlands report charging front loads, and between 50% and 75% of funds domiciled in the Netherlands report charging a front load. However, loads are often negotiable with a sales agent, and in practice many loads are waived for investors.

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

Dutch individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in the Netherlands. The 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 ratios for funds in the Netherlands are:

Fixed-Income	**Equity**	**Allocation**	**Money Market**
1.25%	1.90%	1.64%	0.43%

Fixed-Income / Domiciled	**Equity** / Domiciled	**Allocation** / Domiciled	**Money Market** / Domiciled
0.75%	1.19%	1.11%	0.43%

Money market funds are seldom used by individual investors in the Netherlands, as banks offer savings accounts with similar yields.

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Sales & Media

In the Netherlands, open-end mutual funds are the most common fundlike vehicles for investors to own. More self-directed and experienced investors are shifting toward ETFs because of the perceived lower costs and the reality that many actively managed open-end funds have lagged their benchmarks for some time.

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.

Most mutual funds in the Netherlands do not require investment minimums. "Off-the-page" advertising (allowing investors to send money to a fund company without receiving the prospectus first) is against the law in the Netherlands. Investors are supposed to receive a scheme information document prior to investment. However, there is only light enforcement of this requirement. The guidelines laid down by AFM require that advisors consider all appropriate products before making a recommendation. It is required, for example, that advisors make clear to clients why they would advise purchasing an actively managed fund over an ETF.

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

In the Netherlands, the practice of using sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds is 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 they sometimes promote long-term investing.

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New Zealand

Regulation & Taxation

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

The regulations governing New Zealand's mutual funds are the 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.

FMA seeks to have the following impacts on financial markets:

- Financial markets participants have clear and well-understood responsibilities.
- Investors have access to the information they need to make informed decisions.
- Investors clearly understand and have confidence in the regulation of financial markets.
- Emerging risks to FMA's objective are identified, and appropriate responses are developed.
- Financial markets are efficient, resilient, and internationally attractive.
- The costs and benefits of the regulatory regime are proportionate.

The investment industry is also governed by best-practices guidelines issued by its funds association, the Financial Services Council. This organization (previously called the Investment Savings and Insurance Association) represents the views of various fund managers and insurance companies.

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

New Zealand regulations are somewhat up-to-date, but they can be delayed and only partially address known problems. The FMA is now sufficiently resourced as a result of a significant increase in funding. While it is still early days, the FMA appears to be staffed adequately for comprehensive enforcement actions. Most enforcement actions are public in New Zealand. The regulation and supervision of fund advertisements is somewhat effective and prevents the worst violations, although the regulator does not catch all misleading advertising.

While regulators in New Zealand have not fulfilled many investor expectations in years past, the FMA has recently begun a much more activist approach. They are reviewing the uniformity of disclosure of

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fees, commission structures, advisor incentives, and other regulatory changes. There have been significant changes to New Zealand's regulatory environment in recent years following a host of failed investment products. Much has been completed, although there remains the first full review of the Securities Act in over 30 years. This survey reflects both the current regulations and announced changes as well as the aggregate history of enforcement, but continued enforcement efforts and regulatory changes will result in an improved grade in future surveys.

The Ministry of Business, Innovation, and Employment is proposing some far-reaching changes to periodic disclosure beginning with KiwiSaver funds, but with a view to adopt this for all managed funds. Under the regulations, KiwiSaver schemes will be required to report information on returns, fees and costs, assets and portfolio holdings, liquidity and liabilities, and key personnel. The regulations come into force on July 1, 2013, with the first disclosure statements due to be published in mid-October 2013.

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. This is 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, 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 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 NZD 1,000 contribution when the scheme is set up and a matching contribution of NZD 20 per week to a maximum of NZD 521. Funds available for KiwiSaver are identical to those available in taxable accounts; the account carries the tax credit, not the fund.

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In New Zealand, the tax system for funds is quite complex, but in most cases the tax is paid at the fund level so it's a relatively easy exercise for investors.There are a number of taxable scenarios depending on the geography of the investment and the domicile of the fund manager an investor chooses. Investors provide their fund company with their marginal investment tax rate, and the company withholds taxes and pays the government on behalf of the end investor. Investors are responsible for taxes upon interest earned, local dividends, and capital gains earned on domestic shares annually at a marginal rate specific to capital income. Foreign equity holdings accrue taxes based upon an assumed 5% fair dividend rate. The rate is a substitute for actual calculation of dividend and realized capital gains. Investors also do not face taxes upon the liquidation of fund shares. There are no other taxes on fund investments. The returns of a hypothetical portfolio held for five years is reduced from a pretax 6.29% to an aftertax return of 6.06%. This 23-basis-point annual reduction is lower than is found in most countries in the survey.

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

Disclosure

The Investment Statement serves as the required simplified prospectus in New Zealand. The Investment Statement is not required to pertain to only one fund at a time but is typically provided in this manner. It contains useful educational information on investing, but the fund details are superficial and of limited use to an inquisitive investor. The document is typically more than 10 pages in length, making it too long for investors to use easily. The Investment Statement is generally written plainly enough for an experienced investor to understand. It also contains a section clearly describing the strategy and objective of the fund with enough detail for an investor to comprehend the fund's investment policy. The Investment Statement does not, however, contain any information on risks. While there is a section on fees, a Total Expense Ratio is not included and there is no numerical example of fund expenses, no trading cost measure, no performance information, no manager information, and no portfolio details.

In New Zealand, fund companies must publish annual reports. The management's discussion is a required inclusion in the annual report but does not typically tie fund performance to individual investment decisions in a manner useful for investors. Regulation in New Zealand does not require that funds provide TERs, although this will also be changing for all KiwiSaver schemes under the proposed KiwiSaver periodic disclosure requirements. The FSC does recommend publishing TERs as a best practice, and these are sometimes available. Investors rarely can tell which portion of expenses pays for which fund services. The cost of trading securities is rarely available for funds in New Zealand. Fees are presented in a somewhat uniform format such that investors can compare the cost of funds. Acquired fund expenses are sometimes included in the TER of fund of funds, but without standardization of TER this is difficult to verify. Funds in New Zealand are not required to include an example of the impact of fees.

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Remarkably, mutual funds in New Zealand are not required to publish a full and complete disclosure of portfolio holdings. This applies to the investment statement, annual report, and any other fund literature. Starting in the second half of 2013, KiwiSaver funds will face the new requirement of disclosing full portfolio holdings once a year. New Zealand's change is encouraging but does not go far enough. Investors around the world typically receive a full statement of investments twice a year. The proposed changes put New Zealand on a glacial pace to conform to global typical practices, let alone best practices.

Portfolio-manager information is not required information in New Zealand, although professional analysts sometimes have access to it. 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.

New Zealand's regulators are working to bring fund disclosure up to the level that investors expect around the world. Their first step has been to improve the disclosure for KiwiSaver funds, the most widely held funds in New Zealand. New disclosure rules are expected to be implemented in the second half of 2013. The changes will ensure that TERs are calculated uniformly across funds and disclosed in a standardized manner. For the first time New Zealand KiwiSaver investors will receive full portfolio holdings, albeit the regulator is only proposing this to happen once a year. Additionally, KiwiSaver products will have to disclose names and tenures information about the portfolio managers. Each of these changes is a significant improvement, but we'd like to see these applied to all investment products available to retail investors in New Zealand. Morningstar also believes that annual holdings disclosure is still less than investors deserve, but it's certainly better than no disclosure. We hope that the impending full review of securities regulation will bring New Zealand in line with global best practices.

Fees & Expenses

In New Zealand, investors have the ability to negotiate loads with the sales agent. In late April 2010, the FSC announced a plan to phase out commissions. This was directly spurred by a similar announcement in Australia. Currently only a moderate percentage of investor accounts pay for advice outside of commissions and expenses.

In New Zealand, between 50% and 75% of available-for-sale funds report charging front loads, and between 50% and 75% of home-domiciled funds report charging a front load. When purchasing funds without advice, investors are able to gain access to funds without loads or trail commissions, but as of yet these funds make up only a small part of retail investors' assets.

Funds in New Zealand are permitted to charge asymmetrical performance fees. All relevant terms of performance fees are disclosed such that an investor can accurately estimate expenses. Performance fees have become more common in New Zealand in recent years.

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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 ratios for funds in New Zealand are:

Fixed-Income	**Equity**	**Allocation**	**Money Market**
1.38%	1.79%	1.49%	0.64%
Fixed-Income / Domiciled	**Equity** / Domiciled	**Allocation** / Domiciled	**Money Market** / Domiciled
0.73%	1.58%	0.89%	0.48%

Sales & Media

In New Zealand, open-end mutual funds are the most common fundlike vehicles for investors to own. The range of closed-end and exchange-traded funds available do not cover all market structures, and competing insurance products are not considered equivalent by the investing public.

New Zealand investors have multiple distribution options widely available, including independent advisors, brokerage firms, banks, and insurance companies, as well as directly from the fund companies. Independent advisors along with banks and insurance companies dominate fund distribution. It is estimated that between 50% and 80% of funds in New Zealand are sold through a distributor with an open-architecture system.

Mutual funds in New Zealand typically require investment minimums, but these are frequently waived with participation in an automatic investment plan. The median investment minimum of funds available for sale in New Zealand is over USD 2,000, and the median investment minimum of New Zealand-domiciled funds is over USD 2,000.

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

Advisors are required by regulation to consider all similar products when making a fund recommendation.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not a known practice in New Zealand.

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In New Zealand, the practice of using sales contests to motivate the general sale of funds is allowed with little oversight or guidance. The practice of compensating advisors (either monetarily or through awards) for selling particular funds is also allowed, although it is required to be disclosed and the regulator exercises moderate oversight.

Investors in New Zealand can find mutual fund articles in their newspapers on a weekly basis. These articles sometimes mention mutual fund fees when they are high, but only a select few commentators promote long-term investing.

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Norway

Regulation & Taxation

Finanstilsynet is the Financial Supervisory Authority of Norway; it was renamed from Kredittilsynet in December 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 marketplaces, settlement centers, and securities registers, estate agencies, debt collection agencies, external accountants, and auditors. The regulation governing Norway's mutual funds is the Mutual Fund Act of 2011. Additionally, as a member of the European Economic Area, Norway's laws conform to European Union directives including UCITS IV 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.

In much of Europe, including Norway, there is an industry perception that fund regulations are constantly changing almost too fast for fund sponsors to keep up with and for investors to familiarize themselves with the changes. Regulations in Norway are generally written broadly and provide recommendations for good business practices but not necessarily details for implementation. The regulators are staffed somewhat sufficiently for comprehensive enforcement actions and proactive oversight in identifying improprieties. Certain actions are delayed because of insufficient staffing. Most enforcement actions are public in Norway. The regulation and supervision of fund advertisements are perceived as only somewhat effective and only identify the worst violations.

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

A soft-dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even non-research-related 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.

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In Norway, funds are required to have a board of directors that holds a general election every year, and there is a minimum level of independence required.

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

In Norway, 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 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, taxes upon interest income earned by funds are collected annually at a capital income rate separate from the marginal income tax rate. Fund investors are responsible for taxes on corporate dividends only if the fund distributes, which is not required. Long-term capital gains are taxed only upon the sale of fund shares, and the rate is lowered based upon indexation of cost basis. A wealth tax is also applicable in Norway. In Norway, our hypothetical investment with a 6.29% annualized pretax return has an aftertax return of 4.11%, which amounts to a reduction of 2.18% annually—one of the highest tax burdens in the survey.

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

Disclosure

In Norway, fund offering documents are known as articles of association and are generally one-time documents. Non-UCITS funds sold in Norway are subject to the same disclosure requirements as UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document, which by regulation must be in place after July 1, 2012. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. Funds must provide the KIID in both English and Norwegian. This requirement is waived for foreign funds that market only to institutional clients and have the regulator's approval to only publish the KIID in English. These funds typically have a minimum initial investment of more than NOK 5 million. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

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

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

All investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end and exchange-traded funds. Other products such as ETNs, ETCs, closed-end funds, and structured products have separate regulations. In Norway, the fund's offering document only needs to be updated upon a material change in the operating terms or investment strategy, rather than annually. Fund companies must publish both annual and semiannual reports, and the financial statements within these shareholder reports contain a prior-year comparison. 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 lineup of funds, audited financial statements of the funds, a fund fact section with a full portfolio, and other useful fund governance information.

Within the financial statements, the monetary costs that compose the TER are disclosed in total only and investors can rarely tell what portion of expenses pays for which fund services. It is not easy for investors to tell how much is being paid for the major expenses. Trading cost information is infrequently disclosed in any manner. There is generally a uniform presentation of fees and expenses in the form of Ongoing Charges in the KIID but rarely in other fund literature. Pan-European regulations require the inclusion of acquired fund expenses when more than 10% is invested in another fund.

Mutual funds are required to publish full portfolio holdings information semiannually, but most funds provide this information on a monthly basis.

Portfolio manager information is not required information in Norway, but many funds provide managers' names within fund promotional materials. The manager's tenure is usually not provided. No information on the compensation of individual managers or their investments alongside investors

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is typically available. Although the compensation of managers is not directly available, the government publishes the tax information of all citizens including wealth, taxable income, and taxes paid on a government website.

Norway does not have a website with an electronic repository of fund documents. A government archive of annual reports is available, but it is not online and costly to use.

Fees & Expenses

In Norway, stated loads are rarely negotiable with the sales agent. But it is common practice for distributors to offer breakpoints, reductions in loads based upon the size of the fund or platform investment. Investors in Norway rarely pay for advice in addition to loads and TERs.
In Norway, over 50% and 75% of available-for-sale funds report charging front loads, and between 50% and 75% of home-domiciled funds also report charging a front load. Funds with no loads or retrocessions are widely available in Norway, but they make up a small percentage of assets.

Norway is one of only a few countries in this survey that require any performance fees paid to fund advisors to 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 poorly disclosed, such that investors can only somewhat estimate fees based upon current performance.

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, which may indicate that more sophisticated funds are choosing to distribute across the continent rather than solely in their home jurisdiction.

The median asset-weighted expense ratios for funds in Norway are:

Fixed-Income 1.29%	**Equity** 1.92%	**Allocation** 1.69%	**Money Market** 0.45%
Fixed-Income / Domiciled 0.50%	**Equity** / Domiciled 1.87%	**Allocation** / Domiciled 1.26%	**Money Market** / Domiciled 0.35%

Sales & Media

In Norway, mutual funds are the most common fundlike 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, resulting in a sharp decrease in their availability. Other available products include insurance savings and pension saving schemes, which typically utilize open-end UCITS.

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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. It is estimated that less than 20% of funds in Norway are sold through a distributor with an open-architecture system.

Mutual funds in Norway typically require investment minimums, but these are frequently waived with participation in an automatic investment plan. The median investment minimum of funds available for sale in Norway is more than USD 2,000. The median investment minimum of Norwegian-domiciled funds is less than USD 500.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Norway, this type of advertising is not allowed; investors are supposed to receive a KIID. It is common practice for fund applications to require a signature acknowledging receipt of fund offering documents and the implications of investing in the fund. Advisors and other fund salespeople in Norway can technically make any recommendation they feel is appropriate without considering equivalent products available that are most suitable for the specific investor. However, advisors are required to comply with MiFID rules, and this particularly true in considering equal funds with different fees. The FSA has specifically required advisors to elect the fund with the lower costs in those cases in order to comply with MiFID.

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

In Norway, the practice of using sales contests to motivate general sales of funds is not allowed. Compensating advisors (either monetarily or through awards) for selling particular funds is also prohibited by regulation. 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 generate a conflict of interest in order to encourage best practices in the advisor community.

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

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Singapore

Regulation & Taxation

Monetary Authority of Singapore is the regulatory body responsible for supervision over money, banking, insurance, securities, and the financials 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, or CIS Code, is issued by the MAS pursuant to the Securities and Futures Act, 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, which all licensed fund management entities in Singapore are required to join. 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.

Regulations in Singapore are up-to-date, and the regulator publishes supplemental regulations to fill gaps in earlier regulations. In 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 an 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 in which 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.

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 regard to soft-dollar practices, the CIS Code restricts their use and requires the disclosure of soft dollars received from each broker in the semiannual and annual reports. In the case of Singapore, the CIS

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Code restricts the use of these practices as follows:

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

- The soft dollars received can reasonably be expected to assist in the manager's provision of investment advice or related services to the scheme.
- Transactions are executed on the best available terms, taking into account the market at the time for transactions of the kind and size concerned.
- 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."

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.

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

To encourage working individuals to voluntarily save for retirement over and above their Central Provident Fund savings, the Singapore 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 and interest. 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. Interest earned from approved banks and funds is also exempt from taxes. Mutual fund investors are generally exempt from all investment taxes in Singapore. A hypothetical five-year fund investment has identical pretax and aftertax returns of 6.29%.

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Fund management services in Singapore are subject to the Goods and Services Tax.

Disclosure

In Singapore, prospectuses contain a stand-alone Product Highlight Sheet. Investors must receive either a Product Highlight Sheet or full prospectus before making an investment. Either offering document is accompanied by a fact sheet containing additional performance information. We consider the combination of a product highlight sheet and fact sheet as Singapore's simplified prospectus. The Product Highlight Sheet is required to be four pages or fewer. Combined, the Product Highlight Sheet and fact sheet typically are exactly five pages. They are required to pertain to only one fund at a time.

The Product Highlight Sheet and fact sheet are required to be written in plain language without industry-specific jargon or legalese. The strategy section in the product highlight sheet includes sufficient information for professionals to identify the exact investment strategy used by the portfolio managers. Risks are generally explained clearly within the document and are specific to the fund in question rather than being general.

Total expense ratios are presented on a historic basis within the simplified prospectus. There is no monetary illustration of the effects of fees on a standard assumed return, but the fees are laid out clearly in general. The Product Highlight Sheet and fact sheet do not contain mention of trading costs. Returns are included in the fact sheet as well as in the prospectus, although only the prospectus discloses returns in the form of standardized periods. The simplified prospectus and fact sheet do not disclose manager name or tenure on the fund, although manager name and professional tenure overall is provided in the full prospectus. The fund fact sheet typically lists the top 10 holdings.

All retail products are subject to the same disclosure requirements in Singapore. Offering documents are only updated when the document is amended or changed. Fund companies must publish both annual and semiannual reports. The financial statements within the shareholder reports generally do not contain comparisons to prior-year statements. 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, an 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 which portion of fees paid by investors pays for which fund services. The turnover ratio is provided as a proxy to estimate the cost of trading securities. Fees are presented in a uniform format, although investors must search to find itemized expense information. The TER includes acquired fund expenses. Funds in Singapore often include an example of the

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impact of fees. Fact sheets are required to show historical net of sales charges, but a monetary example is not required.

Mutual funds are required to publish full portfolio holdings information semiannually.

The name of the portfolio manager along with a professional history is required information in Singapore. 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. As the name implies, OPERA hosts prospectuses and not all fund literature.

Fees & Expenses

In Singapore, stated loads are generally negotiable with the sales agent. Fund literature states maximum sales loads, and distributors market funds at reduced commissions, but small investors do not actively negotiate on their own behalf.

It is possible but rare for investors to pay for advice other than through commissions and or retrocessions. In Singapore, more than 75% of available-for-sale funds report charging front loads, and likewise more than 75% of domiciled funds report charging a front load. Funds with no loads or retrocessions exist in Singapore but are difficult for investors to locate and make up a small percentage of assets.

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

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 in general lower than those offered from foreign advisors.

The median asset-weighted expense ratios for funds in Singapore are:

Fixed-Income	**Equity**	**Allocation**	**Money Market**
1.40%	1.94%	1.76%	0.35%
Fixed-Income / Domiciled	**Equity** / Domiciled	**Allocation** / Domiciled	**Money Market** / Domiciled
1.09%	1.72%	1.45%	0.36%

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Sales & Media

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

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. It is estimated that over 80% of funds in Singapore are sold through a distributor with an open-architecture system.

Funds in Singapore typically require investment minimums, but these are frequently waived or reduced with participation in an automatic investment plan. The median investment minimum of funds available for sale in Singapore is between USD 1,000 and USD 2,000. The median investment minimum of Singaporean-domiciled funds is also between USD 1,000 and USD 2,000.

"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. By tradition, advisors generally consider all appropriate products when making an investment recommendation.

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

In Singapore, the practice of using 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 occasionally. These articles almost never point out mutual fund fees when they are high, and they sometimes promote long-term investing.

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South Africa

Regulation & Taxation

In South Africa, the Financial Services Board is an independent institution established by statute to oversee the South African nonbanking 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 had 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 receive 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 Association for Savings and Investment South Africa is a self-regulatory body that works with the fund industry. ASISA has codes of standards and practices 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 they can be delayed and only partially address known problems. The regulators are sufficiently staffed but have been known to have delays in addressing problems when they are found. Most enforcement actions are public in South Africa. The regulation and supervision of fund advertisements is somewhat adequate, with only the worst violations being identified in practice.

All countries in this survey, including South Africa, require funds to be audited by an 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.

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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. Additionally, soft-dollar arrangements are required by regulation to benefit the research of the fund.

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).

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 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.

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, investors are responsible for taxes on interest income at the standard income tax rate. Foreign source dividends are also generally taxed at an individual's income tax rate. Domestic dividends are taxed at a lower rate reserved for that source of income. Capital gains earned within investment funds are not subject to annual taxation and accrue in the fund's value until sale of the fund. Upon liquidation of the fund investment, the first ZAR 30,000 of income considered capital gains are excluded from income; additionally there are maximum implied rates keeping long-term capital gains tax rates significantly lower than income tax rates despite high stated rates upon the excess. Shares held longer than three years are considered capital gains. There are no additional taxes on fund savings. In South Africa, our hypothetical five-year fund investment generates aftertax annualized returns of 5.08%, a reduction of 1.21% annually from the pretax returns of 6.29%.

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

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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 subdeeds is the closest publication to the annual prospectuses found in many other countries. Client application forms are mandated to contain information that is somewhat similar to that found in a simplified prospectus. But this document is not considered equivalent to the simplified documents available in most markets.

In South Africa, the standard point-of-sale document is the application form. The information in this form is regulated to contain certain levels of information. These documents are sometimes provided for individual funds but can also pertain to all products on a platform. There is no restriction on the length of this document. The documents typically contain some information on fund risks but less about specific fund investment strategies. Total Expense Ratio information is included, as is performance history for the past five years of the fund. The application typically does not contain information on trading costs, the names and tenures of the portfolio manager, nor a numerical example of expenses.

In South Africa, only open-end funds are considered retail investment products. Other products are considered insurance products and are subject to separate regulation.

South Africa's disclosure is lacking compared with many other countries in this survey. Funds are not required to update an offering document annually or after amendments or changes. Additionally, unlike most of the other countries in this survey, there are no required shareholder reports.

Funds generally provide a section on management's discussion of fund performance. However, the discussion is typically generic and unhelpful to investors. Funds in South Africa rarely include an example of the impact of fees. Trading costs are rarely disclosed in any manner. There is no uniform presentation of fees, making it very difficult for investors to tell how they are paying in total or for each of the various fund expenses.

Mutual funds are required to disclose full portfolio holdings to 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. However, almost all funds do voluntarily produce a fact sheet that contains the manager's name without including the manager's tenure. This is one disclosure feature where South African funds provide voluntary disclosure that is better than typical practices around the world. No information on the compensation of individual managers or their investments alongside investors is available.

South Africa does not have a central website with an electronic repository of fund documents.

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Fees & Expenses

In South Africa, stated loads are generally negotiable with the sales agent. It is common for the investor to pay for advice outside of commissions and retrocessions. The fee is usually negotiated and paid directly to the advisor through the redemption of shares. Between 25% and 50% of both funds available for sale and funds domiciled in South Africa report a front load. When purchasing funds without advice, funds without loads or trail commissions are accessible but make up a small part of investors' assets.

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.

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 TERs of funds domiciled in South Africa are generally lower than those offered from foreign fund sponsors.

The median asset-weighted expense ratios for funds in South Africa are:

Fixed-Income	**Equity**	**Allocation**	**Money Market**
0.92%	1.90%	1.80%	0.28%
Fixed-Income / Domiciled	**Equity** / Domiciled	**Allocation** / Domiciled	**Money Market** / Domiciled
0.79%	1.43%	1.85%	0.23%

Sales & Media

In South Africa, mutual funds are the preferred investment vehicle for new pooled investments.

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. Fund supermarkets, brokerage houses, banks, and insurance companies dominate fund sales. It is estimated that between 20% and 50% of funds in South Africa are sold through a distributor with an open-architecture system.

Mutual funds in South Africa typically require investment minimums, but these are frequently waived with participation in an automatic investment plan. The median investment minimum of funds available for sale in South Africa is above USD 2,000. The median investment minimum of South African-domiciled funds is between USD 500 and USD 1,000.

"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 invest-

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ment. Advisors and other fund salespeople in South Africa can make any recommendation they feel is appropriate without considering equivalent products available that are most suitable for the specific investor.

Directed brokerage arrangements are a common practice in South Africa.

Regulations in South Africa limit funds from paying third-party advisors more than ZAR 1,000 annually in incentives, entertainment, gifts, or educational training. This severely limits inducements and sales contests. There is not a similar restriction on salesforces tied to the fund sponsor. These restrictions protect investors from the worst abuses of sales contests, and we consider this a significant restriction protecting investors from biased advice.

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

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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. 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 IV and MiFID.

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

In Spain, there are a number of laws that established and empowered the regulator, but the laws are piecemeal. There are multiple regulators in addition to CNMV, but they are typically in agreement and coordinated. In addition, the laws of Spain conform to EU directives including UCITS and MiFID. In much of Europe, including Spain, there is an industry perception that fund regulations are constantly changing almost too fast for fund sponsors to keep up with and for investors to familiarize themselves with the changes. The regulators are staffed sufficiently for comprehensive enforcement actions, but there is little proactive oversight in 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 partially effective and only identify the worst violations.

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

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

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In Spain, funds are not required to have boards of directors.

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

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

In Spain, the government has a pension system to encourage individuals to invest in funds as a way to provide their own wealth in retirement. The Spanish pension system is made up of three pillars: state-guaranteed pensions for everyone working in Spain; supplementary pensions that are arranged between the employee and the employer; and individual pension plans. Individual pensions in Spain are frequently linked to insurance contracts and must follow investment restrictions that do not apply to funds in general. Additionally, pension funds in Spain are regulated by the Direccion General Seguros y planes de Pensiones, a division of the Spanish Ministry of Finance and Taxes, rather than the CNMV. Individual pensions in Spain offer tax deferral, but the fund choices are limited and do not have the same disclosure requirements as fully taxable funds.

Investors in Spain can defer taxes on interest and dividends earned within funds if they choose accumulating share classes. Capital gains taxes only apply to funds in Spain upon the liquidation of fund shares when there is not a rollover into another qualified fund. Investment funds receive the preference of income accrual without ongoing taxes and tax deferral into approved funds. Nevertheless, there is a small tax on the realized profits earned within funds. The aftertax annualized returns on a hypothetical investment earning 6.29% pretax are 6.26%, an annual reduction of 0.03%.

In Spain, most goods and services are subject to a Value Added Tax. Most finance and insurance services in Spain are exempt, but discretionary personal portfolio advisory services are subject to VAT.

Disclosure

As a member of the EU, funds in Spain are compliant with UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document, which by regulation must be in place after July 1, 2012. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

The KIID replaces the typical Total Expense Ratio with Ongoing Charges, a prospective percentage that, unlike the previous TER, excludes performance fees. The KIID is required by regulation to

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include the performance fee as a separate percentage figure that is on equivalent terms with the Ongoing Charges percentage. In practice, this is not uniformly enforced, and investors must often search for details and calculate the amount they would spend on performance fees on their own. The KIID does not consistently help investors in determining the exact amount they should expect to spend on fees. Furthermore, the KIID does not contain a monetary illustration of fees that would provide the investor with a clear picture of the amount paid in fees based on an assumed standard monetary value and return. This information is also unavailable in other fund literature in Spain. The KIID does not contain any disclosure of trading costs.

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

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

In Spain, fund companies must publish shareholder reports quarterly. The fund's offering document must be updated annually. Financial statements within the shareholder report typically include comparisons to three prior years. Management's discussion of performance is required information, and our local analysts observe that fund companies usually provide a general market commentary that does not tie into investment decisions or fund performance. A few fund shops do distinguish themselves with thorough and candid discussions. A typical annual report reviewed included a proxy for transaction costs, total expenses, fund risks and objectives, an abbreviated financial statement, full portfolio holdings, and a discussion of fund performance.

Shareholder reports present a breakdown of management, custodian, and performance fees from the TER as percentages. However, most specific fund services such as marketing and fund administration are aggregated within the TER. Therefore, investors can only somewhat tell which portion of fees pay for specific fund services. In Spain, the turnover ratio is provided as a proxy for the cost of trading securities. Fees are presented in a uniform format, although investors frequently cannot find itemized expense information. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund. Fund expense information is available both in fund literature and on the CNMV website.

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

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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.

The CNMV has a website with an electronic repository of fund documents and TER information. The CNMV has actively improved its website since our first study, but the information still is frequently delayed.

Fees & Expenses

In Spain, stated loads are rarely negotiable with the sales agent. It is rare for investors to pay for advice outside loads or trail commissions embedded in expense ratios. Between 25% and 50% of funds domiciled in Spain (mainly guaranteed funds) and between 50% and 75% of funds available for sale in Spain report charging front loads. Unlike many countries in this survey, we observe that it is common for Spanish investors to purchase funds without advice. Funds without front loads or embedded retrocessions are easily accessible and constitute a large percentage of investor assets.

Foreign funds find the Spanish market challenging because of these characteristics. We observe that in order to compete with locally domiciled no-load funds, most foreign funds waive stated front loads when trying to attract Spanish investors. Some foreign fund sponsors have even chosen to launch specific share classes free of front loads that are only marketed to Spanish investors. These share classes often have higher management fees than the share classes offered with loads in other European markets.

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.

Spanish individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in Spain. The TERs of funds domiciled in Spain are generally lower than those offered by foreign fund sponsors.

The median asset-weighted expense ratios for funds in Spain are:

Fixed-Income	**Equity**	**Allocation**	**Money Market**
1.31%	1.90%	1.64%	0.40%
Fixed-Income / Domiciled	**Equity** / Domiciled	**Allocation** / Domiciled	**Money Market** / Domiciled
1.01%	1.88%	0.95%	0.51%

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Sales & Media

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

In Spain, an investor has multiple distribution options to choose from including fund supermarkets, independent advisors, and banks and insurance companies. The fund supermarkets and bank and insurance company channels dominate fund sales. It is estimated that less than 20% of funds in Spain are sold through a distributor with an open-architecture system, although guided architecture including foreign-domiciled funds is becoming more common.

Mutual funds domiciled in Spain usually require investment minimums, but they are typically very low. The median investment minimum of funds available for sale in Spain is less than USD 500. The median investment minimum of Spanish-domiciled funds is less than USD 500.

"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. Advisors and other fund salespeople in Spain can make any recommendation they feel is appropriate without considering equivalent products available that are most suitable for the specific investor.

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

In Spain, the practice of compensating advisors (either monetarily or through awards) for selling particular funds is not banned. However, across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice. The practice of using sales contests to motivate the general sales of funds is allowed with little known oversight or guidance.

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.

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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 IV and MiFID.

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

Lag (2004:46) om Investeringsfonder is the name of the comprehensive law regulating the fund industry. Finansinspektionen is the only regulatory agency in Sweden. In much of Europe, including Sweden, there is an industry perception that fund regulations are constantly changing almost too fast for fund sponsors to keep up with and for investors to familiarize themselves with the changes. 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 an 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 EU, Sweden's laws and regulations comply with MiFID. This directive requires that soft-dollar arrangements be used for the benefit of investors and be disclosed, and that managers seek best execution of trades. Sweden allows soft-dollar arrangements that adhere to these restrictions and requires that these be disclosed to investors. It is unclear whether these rules are enforced.

In Sweden, funds are not required to have boards of directors.

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

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

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 plan known as Premiepension, or PPM, which is managed by a government agency. In January 2010, PPM became part of a new agency, Pensionsmydigheten. Additionally, Swedes can make additional tax-deferred investments into individual pension savings 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 their PPM savings. Public pensions in Sweden, including PPM and IPS, are supervised by the Pensionsmydigheten. The fund choices available within individual insurance wrappers, IPS, and PPM savings are nearly identical to taxable investments, but shareholders have restricted rights compared with taxable investors. Most individual insurance wrappers have a limited choice of funds.

Investors in Sweden can defer taxes on interest and dividends earned within funds if they choose accumulating share classes. Capital gains taxes only apply to funds in Sweden upon the liquidation of fund shares. Upon liquidation, capital gains are subject to a capital income tax rate that is different from the earned income tax rate in Sweden. Investment funds receive the preference of income accrual without ongoing taxes, and there are no ancillary taxes that apply to fund investments. The aftertax annualized returns on a hypothetical investment earning 6.29% pretax are 4.50%, an annual reduction of 1.79%.

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

Disclosure

As a member of the EU, funds in Sweden are compliant with UCITS. Under the UCITS IV Directive, the simplified prospectus was replaced by the Key Investor Information Document, which by regulation must be in place after July 1, 2012. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

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

Prior to the implementation of the KIID, Swedish simplified prospectuses contained monetary illustrations of fees. While no formal regulations have been implemented yet, government ministers have called for the reintroduction of these illustrations, at least on fund sponsors' websites. A handful of funds and independent research providers, including Morningstar, have introduced a similar monetary illustration on their websites and print materials.

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

Across the EU, all investment funds compliant with UCITS are subject to the same disclosure requirements and operating regulations. This includes open-end and exchange-traded funds. Other products such as ETNs, ETCs, closed-end funds, and structured products have separate regulations. In Sweden, offering documents must be updated annually even if there is no material change in operations. Funds must publish annual and semiannual reports; certain key information has as many as 10 prior years of information for comparison purposes. The management's discussion within this information is generally insightful and connects investment decisions to results.

In addition to Ongoing Charges within the KIID, fund investors in Sweden receive account statements showing the exact proportion of their assets that went to fees in monetary terms on an annual basis. The itemization of expenses in the financial statement sometimes provides enough information for investors to understand which portion of fees covers which expenses. Commissions paid are available within the shareholder reports so that investors can estimate trading costs. Pan-European regulations outline the rules regarding uniform presentation of fees and expenses for funds and require the inclusion of acquired fund expenses when more than 10% is invested in another fund.

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

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Funds domiciled in Sweden are required to provide the names 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. The lack of ownership disclosure carries over to the board and the management company, which also do not provide this information.

Finansinspektionen has a website with an electronic repository of fund documents, but it currently contains only funds' quarterly portfolio holdings disclosures.

Fees & Expenses

In Sweden, stated loads are negotiable with the sales agent. It is also rare for investors to pay financial advice fees other than through commissions or retrocessions. Between 50% and 75% of funds available for sale in Sweden report front loads and less than 25% of locally domiciled funds report a front load. The number of investors paying front loads in practice can be much lower than the reported front loads imply because the load can be waived fully or partially by the distribution company. Funds without loads and retrocessions are widely available and constitute a large part of investor assets. There are ongoing discussions in Sweden to follow the U.K.'s example and ban all loads and retrocessions, but to date this has not yet occurred.

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

Swedish individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with a European passport. Our local research team notes that due to the high cost of currency conversions, most investors only choose between fund share classes denominated or traded in Swedish krona. This is a common feature of markets that offer funds in multiple currency denominations. Because the choice of currency is a discretionary piece of the investment process, the following estimates include all share classes investors can purchase. The TERs of funds domiciled in Sweden are generally lower than those offered by foreign fund sponsors.

The median asset-weighted expense ratios for funds in Sweden are:

Fixed-Income	**Equity**	**Allocation**	**Money Market**
1.18%	1.86%	1.58%	0.43%
Fixed-Income / Domiciled	**Equity** / Domiciled	**Allocation** / Domiciled	**Money Market** / Domiciled
0.70%	1.42%	1.21%	0.40%

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Sales & Media

In Sweden, insurance-linked products are the most common fundlike 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. Swedish investors have three fund sales channels widely available: banks and insurance companies, direct sales, and fund supermarkets. The bank and insurance company channel dominates fund sales. 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.

Mutual funds in domiciled in Sweden rarely require investment minimums. The median investment minimum of funds available for sale in Sweden is less than USD 500, but the median investment minimum of Swedish-domiciled funds is between USD 500 and USD 1,000.

"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. Additionally, in many instances consumers in the EU have cooling-off periods during which certain purchases can be canceled. Advisors and other fund salespeople in Sweden do not face regulations on what investments need to be considered before making a recommendation.

Swedish regulations do not prohibit directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) but they are not a common practice in Sweden. In addition, MiFID requires that all brokerage arrangements seek best execution and be for the benefit of fund shareholders.

In Sweden, there is no regulation banning the practice compensating advisors (either monetarily or through awards) for selling particular funds. However, across Europe, MiFID bans any commission structures or other excess compensation that would result in biased advice. The practice of using sales contests to motivate the general sales of funds is allowed with little known oversight or guidance.

Investors in Sweden can occasionally find mutual fund articles in their newspapers. These articles rarely mention mutual fund fees when they are high. Articles on fund investing sometimes promote long-term investing.

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Switzerland

Regulation & Taxation

The supervisory authority on investment funds in Switzerland is the Swiss Financial Market Supervisory Authority, or 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, or CISA; the Ordinance on Collective Investment Schemes, or CISO; and the FINMA Ordinance on Collective Investment Schemes, or CISO-FINMA. In addition to this regulation, the code of conduct of the Swiss Funds Association 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.

In March 2013 a new regulation called the CISA came into force, and there are still many details to be finalized. Most changes appeared aimed at making Swiss-domiciled alternative investment funds complaint with the European Union's Alternative Investment Fund Management Directive. At this time it is unknown whether these changes will have an impact on funds aimed at retail clients rather than qualified investors. In Switzerland, many of the changes are implemented through self-regulation; the combination of regulator and self-regulatory body regularly updates rules governing the funds industry. 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 perceived as somewhat effective and only identify the worst violations.

All countries in this survey, including Switzerland, require funds to be audited by an 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 states the following in regard to soft-dollar arrangements:

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"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."

In Switzerland, funds structured as corporations are required to have a board of directors, and these funds have a minimum number of independent directors.

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

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. Foreign-domiciled funds are not automatically registered and must register separately in Switzerland in addition to their domiciled country.

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. Additionally, Swiss can make additional, voluntary tax-deferred 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.

Swiss citizens pay a variety of tax rates based upon the canton in which they live; for our analysis of taxation we considered a typical rate published in a report by a major independent accounting firm. Swiss investors are responsible for taxes on interest and dividends earned within funds annually, at their income tax rate. There are no capital gains taxes for individual investors in Switzerland, nor are there any other taxes that apply to mutual fund investments. Our hypothetical fund investment shows that Swiss taxation reduces annualized returns by 0.48% annually to 5.81% after taxes from 6.29%.

In Switzerland, most goods and services are subject to a Value Added Tax. 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.

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Disclosure

Swiss-domiciled funds are required to publish simplified prospectuses. These documents are typically between five and 10 pages in length and written in clear language that a moderately experienced investor can understand. Unlike many countries in the survey, we observe that the funds' investment strategies and risk disclosures are specific enough to understand the strategy and the risks entailed. The document includes the expected Total Expense Ratio and standardized performance information. There is no monetary illustration on the impact of fees, nor information on trading costs. The simplified prospectus also does not generally include any portfolio holdings information. Most disappointing is a lack of information on portfolio managers; this information is not required or typically provided, so tying performance to the individuals making decisions is very difficult.

While the simplified prospectus is the primary point-of-sale document that investors see, there is additional disclosure available to interested parties. All retail investment products in Switzerland follow the same disclosure regulations. Full prospectuses are required in addition to the simplified document, but the full document is only required to be updated if terms or strategy are amended. The simplified document is where the time-sensitive material resides. Funds must file shareholder reports semiannually; these contain financial statements with a prior-year comparison. But there is no required management discussion of results. The information to calculate the TER is within the financial statements, and presented in total, not on a per-share basis. This information is sometimes itemized so investors can understand how much is paid for various fund services such as custody and management. Fund literature typically includes a turnover ratio, so investors can estimate the impact of trading costs.

TERs for funds in Switzerland are calculated in a uniform manner and meet International Organization of Securities Commissions criteria for standardized expenses. The prospective TER includes acquired fund expenses for fund of fund structures. In addition to the expense information, funds are required to publish full holdings information. The requirement and typical frequency of disclosure is semiannual, along with the shareholder reports.

The lack of portfolio manager information continues within all disclosure documents. There is no requirement to provide the name or tenure of the manager, nor is there compensation information—although we find that names and tenures are sometimes available for research providers upon request. In addition to the lack of manager names and tenures, neither the managers, the board, nor the management company provide information on their investments alongside shareholders.

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.

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Fees & Expenses

In Switzerland, stated loads are negotiable with the sales agent.

Investors in Switzerland sometimes pay for advice outside of commissions and retrocessions; these cases make up a moderate percentage of investor accounts.

Over 75% of funds available for sale in Switzerland report charging front loads and likewise over 75% of locally domiciled funds report charging a front load. When purchasing funds without advice, funds without loads or retrocessions exist but are not easily accessible and make up a minimal percentage of investors' assets.

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

Swiss individual investors have the choice to invest in locally domiciled funds and foreign funds that register to distribute in Switzerland. The TERs of funds domiciled in Switzerland are typically lower than those offered by foreign fund sponsors.

The median asset-weighted expense ratios for funds in Switzerland are:

Fixed-Income	**Equity**	**Allocation**	**Money Market**
1.19%	1.83%	1.64%	0.34%
Fixed-Income / Domiciled	**Equity** / Domiciled	**Allocation** / Domiciled	**Money Market** / Domiciled
0.88%	1.16%	1.32%	0.20%

Sales & Media

In Switzerland, open-end mutual funds are the most popular fundlike product for investors to own.

Swiss investors have a variety of sales channels widely available, including fund supermarkets, independent advisors, and banks and insurance companies. The bank and insurance company sales channel, along with independent advisors, dominate fund sales in Switzerland. 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.

Mutual funds in Switzerland generally require investment minimums, but platforms offer lower minimums and minimums are sometimes waived for automatic investment plans. The median investment minimum of funds available for sale in Switzerland is less than USD 500, and the median investment minimum of Swiss-domiciled funds is also less than USD 500.

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"Off-the-page" advertising allows investors to send money to a fund company without receiving a prospectus or a simplified prospectus first. This practice is prohibited in Switzerland, but it is unclear how frequently this is enforced. By tradition, advisors generally consider all similar products when making fund recommendations.

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.

In Switzerland, the salesforce is led by individual agreement with each employee. If the goals are achieved, a specific type of bonus (mostly monetary) is rewarded to the employee. These agreements generally eliminate sales contests providing an incentive for increased sales of specific funds but act very similarly to contests that motivate selling funds in general.

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 they rarely advocate long-term investing. These articles generally focus on specific investment opportunities.

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Taiwan

Regulation & Taxation

In Taiwan, the Securities and Futures Bureau of the Financial Supervisory Commission 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 as follows:

- 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. 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 and turnover ratio, as well as its top five holdings on a monthly basis and full holdings on a quarterly basis. In addition, the Market Observation Post System by the Taiwan Stock Exchange serves as a platform where fund companies file full and simplified versions of annual and quarterly reports.

The Securities Investment Trust and Consulting Act is the comprehensive regulation governing all fund industry operations in Taiwan. All investment operations are overseen by the FSC, of which the SFB is a subsidiary organization. Taiwanese regulations are up-to-date, and changes typically resolve all emerging regulatory risks effectively. The regulators are staffed sufficiently for comprehensive enforcement actions, and the regulator is perceived as actively investigating improprieties. Most enforcement actions are public in Taiwan. The regulation and supervision of fund advertisements are perceived as effective and succeed at preventing misleading advertising.

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All countries in this survey, including Taiwan, require funds to be audited by an independent party at least once a year. In Taiwan, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, and the two 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 prohibited in Taiwan. The Self-Regulatory Code of SITCA stipulates that kickbacks of commission charges and other interests from security brokers cannot be accepted.

In Taiwan, funds are not required to have boards of directors.

Since 2012 all limitations on investing in mainland China have been removed for funds domiciled in Taiwan, and these funds can invest in securities issued in any country. A 10% cap on investing in mainland China remains for funds domiciled in other countries but available for sale in Taiwan.

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 are actually preferred by Taiwanese investors.

To encourage individuals to invest toward retirement, the Taiwanese government introduced the Labor Pension Fund. This is the only tax-deferred investment available for retirement savings. It is described as follows:

"The medium-and-long-term goal of the Fund is to have the rate of return of the Fund on a 5-year moving average be higher than the legally guaranteed rate of return plus the annual increase of the consumer price index during the same period.

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."

Investors in Taiwan pay a capital income rate on interest income within funds. There is a separate dividend tax rate paid annually, but domestic dividend taxes are reduced by an imputation system crediting corporate taxes paid for domestic corporations. There are no capital gains taxes in Taiwan. Tax incentives to invest for retirement purposes are only available for the public pension fund and not available for open-end funds as a whole. There are no additional tax benefits for fund investors. The aftertax annualized return on a hypothetical investment with a pretax return of 6.29% is 6.02%.

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Fund management services in Taiwan are subject to a business tax based upon the level of sales rather than income. It is unclear whether this increases the cost of fund management as directly as a consumption tax.

Disclosure

Simplified prospectuses in Taiwan typically pertain to one fund at a time and are generally less than five pages in length. The material is written in plain language. The investment objective description is clear with enough details for a professional investor to determine the exact strategy of the fund. The risk sections, while clear, pertain to all investments and are not specific to the primary risks of the fund. The simplified prospectus contains a historic Total Expense Ratio and a monetary illustration of fees based an assumed standard monetary value and return. Trading costs are generally included in the document in the form of explicit commissions. Simplified prospectuses typically do not mention the name or tenure of the portfolio manager. A standardized performance table is a required piece of this document, but there is no portfolio information required or typically included.

Open-end and exchange-traded funds are subject to identical disclosure requirements in Taiwan. These are the only investment products considered to be retail. Funds' offering documents are required to be updated annually, regardless of whether there is a material change in operations. The financial statements within shareholder reports contain a prior-year comparison; these are contained within the annual report. The annual report and offering documents are the only required shareholder reports. Management's discussion of performance within reports is typically generic and does not tie the portfolio returns to specific market events and trades.

The expenses within the annual report are presented in total as a part of the financial statements as well as a ratio. The components of the TER require the itemization of distribution costs, which include retrocessions; this is an improvement over past surveys. The financial statements contain the actual trading costs incurred. There is no uniform presentation of fees within the financial statement. However, fees are presented as an absolute amount and as a percentage of net assets on the central website. These expenses do not include acquired fund expenses for funds of funds, but acquired fund expenses must be disclosed in the prospectus.

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

Funds domiciled in Taiwan are required to provide the names of the portfolio manager, but it is not common practice for funds to provide the tenure. No information on the compensation of individual managers or their investments alongside investors is available. The lack of ownership disclosure carries over to the management company, which also does not provide this information.

In Taiwan, there is a centralized website with current and complete fund literature accessible by individual investors.

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Fees & Expenses

In Taiwan, stated loads are negotiable with the sales agent. It is also rare for investors to pay financial advice fees other than through commissions or retrocessions. Over 75% of funds available for sale in Taiwan report charging front loads, and over 75% of locally domiciled funds report charging a front load. Investors in Taiwan find it quite difficult to purchase funds with no commissions or retrocessions; these funds are a minimal part of investor assets.

Funds domiciled in Taiwan are prohibited from charging a performance fee. This restriction on performance fees generally does not extend overtly to funds domiciled in Taiwan with a government classification as a futures fund or to foreign-domiciled funds. However, there are currently no foreign-domiciled funds charging performance fees in Taiwan, and our analysts feel that a lack of overt regulations does not necessarily give these funds free license to charge performance fees in the future.

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 typically lower than those offered by foreign fund sponsors.

The median asset-weighted expense ratios for funds in Taiwan are:

Fixed-Income 1.41%	**Equity** 1.94%	**Allocation** 1.76%	**Money Market** 0.40%
Fixed-Income / Domiciled 1.29%	**Equity** / Domiciled 1.75%	**Allocation** / Domiciled 1.33%	**Money Market** / Domiciled 0.20%

Sales & Media

In Taiwan, open-end mutual funds are the most popular fundlike product for investors to own, although our analysts find that ETFs are quickly growing in popularity. Taiwanese investors have a good number of sales channels widely available, including fund supermarkets, direct from the fund, and banks and insurance companies. There are many fund supermarkets with little advice and either fully open architecture or broad guided architecture. The fund supermarkets along with bank and insurance company sales channels dominate fund sales in Taiwan. It is estimated that over 80% of funds in Taiwan are sold through a distributor with an open-architecture system.

Mutual funds in Taiwan generally have strict investment minimums, but these are frequently waived for investors in an automatic investment program. The median investment minimum of funds available for sale in Taiwan is less than USD 500, but the median investment minimum of Taiwanese-domiciled funds is less than USD 2,000.

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"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is prohibited in Taiwan and is well-enforced. Advisors and other fund salespeople in Taiwan can make whatever investment recommendation they want while still considering suitability for the investor. There are regulations requiring that they consider all similar products when making investment recommendations.

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are prohibited in Taiwan. The Self-Regulatory Code of SITCA stipulates that members have written agreements stating that kickbacks of commission charges and other interests from security brokers cannot be accepted.

In Taiwan, the practice of using sales contests to motivate general sales of funds and the practice of compensating advisors (either monetarily or through awards) for selling particular funds is allowed with strict regulation or oversight.

Investors in Taiwan can find mutual fund articles in their newspapers on a daily basis. These articles sometimes mention mutual fund fees when they are high, and investors have been learning the importance of costs because of investments that have done poorly in recent years. The Taiwanese media sometimes promote long-term investing.

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Thailand

Regulation & Taxation

In Thailand, the Securities and Exchanges Commission is the regulatory body responsible for supervision of securities and futures sectors. It also regulates fund advertising and sales practices. The mission of the SEC is to "develop and supervise the Thai capital market to ensure efficiency, fairness, transparency, and integrity."

In addition to the SEC, licensed asset management companies in Thailand are represented by the Association of Investment Management Companies, a self-regulatory and advocacy body. The main objectives of the AIMC are as follows:

- To serve as the center of companies licensed to operate investment management businesses.
- To foster the development of and provide protection for investment management businesses.
- To promote and improve professional standards of investment management businesses in the interests of the members and the general public.
- To promote a saving culture among the public to enhance the financial stability of the country as a whole.
- To cooperate with government agencies and/or 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 businesses but also all other types of securities businesses.
- To cooperate with the Stock Exchange of Thailand, 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 businesses but also all other types of securities businesses.
- To facilitate cooperation among the member companies in solving problems associated with the investment management business, and compromise of disputes related to the investment management business among its members or between its members and third parties.
- To set out rules, regulations, or code of ethics for the member companies and to ensure their compliance with the rules, regulations, or code of ethics for smooth operations of investment management companies.
- To provide support for research, study, and dissemination of academic information and news and publicize information about the securities business with particular focus on investment management for the benefits of the members and the general public.
- To encourage unity, cooperation, and development among the member companies.
- To provide social services and contribution as well as other necessary and appropriate activities that will ensure the achievement of AIMC objectives.

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The securities industry is governed by The SEC Act B.E. 2535, enacted in 1992. This comprehensive legislation is the source of all specific regulations. The SEC is the sole regulator of investments, so there are no conflicts between regulators. Thai regulations are somewhat up-to-date, but they 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.

All countries in this survey, including Thailand, require funds to be audited by an independent party at least once a year. In Thailand, fund asset custody is the responsibility of the mutual fund supervisor. The law requires that the mutual fund supervisor be independent of the fund manager, and the two 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. These are an accepted practice in Thailand, but funds with these arrangements typically disclose them. There is a restriction requiring that soft-dollar arrangements benefit shareholders.

In Thailand, 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, and 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, 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 locally domiciled funds by Thai investors. Following the popularity and success of UCITs in Europe, the Association of Southeast Asian Nations has adopted rules for a regional collective investment scheme regime. Launched in July 2012 with an accredited investor regime, it is expected this will expand to all investors in the future. There is a plan for ASEAN capital markets' integration with a 2015 target for full implementation. As these changes are not yet effective for typical investors, we have evaluated the current retail investor regime.

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In Thailand, there are three tax-preferred vehicles that allow for investors to save for retirement with savings that are exempt from income taxes: Provident Funds; Retirement Mutual Funds; and Long-Term Equity Funds, or LTFs. Provident Funds are defined-contribution plans, with employers being able to designate managers of the plan and individuals providing their own investment policy statements. Provident Funds and RMFs must be held until retirement age, but LTFs can be withdrawn after five years. Individuals are allowed to contribute and deduct from income the lesser of 15% of wages or THB 500,000 into these savings vehicles annually. Additionally, employer contributions and distributions to the Provident Fund are exempt from taxes. Funds held within one of these structures are subject to all the regulations of the SEC, but not all funds qualify as RMFs, LTFs, or Provident Funds.

Thai investors are responsible for taxes on interest and dividends earned within funds on an annual basis; taxes are withheld at a capital income rate. Fund investments in Thailand are exempt from capital gains taxation. Additionally, investments in certain LTFs qualify for a tax deduction. Fund investments are exempt from any other taxation in Thailand. In our hypothetical investment scenario, we assumed that the taxes saved by using a LTF would immediately be reinvested in the LTF. As a result, the aftertax annualized returns of a five-year investment are actually 1.81% higher than the pretax returns. This is more fund-friendly than any other tax regime in the survey.

Most goods and services in Thailand are subject to a Value Added Tax; fund investment services are subject to this tax.

Disclosure

The Thai simplified offering document is the summary prospectus. These are required to only apply to one fund at a time but can be quite long, typically over 10 pages in length. The document is written in plain language free of jargon, but the strategy description is typically insufficient to understand the exact investment philosophy of management. The risks section is better. Risks are explained clearly and typically are specific to the fund.

The summary prospectus publishes the last years' TER. It does not contain a monetary illustration of fees or any information on trading costs. The summary prospectus does contain returns for standardized periods. There is no information on the portfolio managers' names or tenures. Portfolio sector breakdowns are included, and sometimes funds voluntarily include holdings.

All retail investments in Thailand are subject to the same disclosure requirements. Funds are required to annually update their offering documents in addition to shareholder reports. Financial statements within shareholder reports include a prior-year comparison. Funds are required to publish both semiannual and annual reports. Management's discussion of performance within reports is typically generic and does not tie the portfolio returns to specific market events and trades.

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Within the financial statements, the monetary costs that compose the TER are disclosed in total and on a per-share basis. These generally contain enough detail so that investors can determine which portion of fees pays for which expenses. Explicit trading costs are disclosed in annual reports, so investors know how much the fund pays in brokerage commissions. Thai rules require that fees and expenses are presented in a uniform manner such that investors can easily compare one product with another.

Presently funds are required to publish full holdings in conjunction with the semiannual shareholder reports. The SEC has disclosed to our local analysts that they are considering expanding this disclosure to quarterly.

Funds typically disclose the name of the portfolio manager in annual reports, but there is no information on the start date or tenure of the manager. Neither the managers' compensation structure nor the managers' investment within the fund is provided to investors. The lack of ownership disclosure carries over to the board equivalent and the management company, which also do not provide this information.

In Thailand, there is a centralized website with current and complete fund literature accessible by individual investors.

Fees & Expenses

In Thailand, stated loads and breakpoints are not negotiable with the sales agent. Paying for advice outside of fees and expenses is a known practice but rare in Thailand. Between 25% and 50% of funds available for sale or domiciled in Thailand report charging a front load. Open-end funds available to retail investors in Thailand that do not include either a front load or trail commission are widely available and make up a moderate percentage of assets.

The SEC permits funds to charge asymmetrical performance fees, but to date it is not a known practice for funds to charge these fees. Additional SEC-provided performance fee examples are fulcrum fees.

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 ratios for funds in Thailand are:

Fixed-Income	Equity	Allocation	Money Market
0.43%	1.76%	1.68%	0.59%

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Sales & Media

In Thailand, open-end mutual funds are the most popular fundlike product for investors to own. Thai investors have most sales channels widely available, including fund supermarkets, traditional brokerage, direct from the fund, and banks and insurance companies. Banks dominate fund sales in Thailand. It is estimated that less than 20% of funds in Thailand are sold through a distributor with an open-architecture system.

Mutual funds in Thailand generally have strict investment minimums. The median investment minimum for funds domiciled in Thailand is less than USD 500. The median investment minimum for funds available for sale in Thailand is less than USD 500.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. This practice is prohibited in Thailand, but it is unclear how frequently this is enforced. Advisors are expected to consider all products when making a recommendation, but there is no formal regulation.

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

In Thailand, the practice of using sales contests to motivate general sales of funds and the practice of compensating advisors (either monetarily or through awards) for selling particular funds is allowed with strict regulations.

Investors in Thailand can find mutual fund articles in financial newspapers on a daily basis. These articles almost never mention mutual fund fees when they are high, and they rarely promote long-term investing.

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United Kingdom

Regulation & Taxation

Until April 1, 2013, there was one main regulator in the United Kingdom, the Financial Services Authority. The FSA was accountable to the Treasury and through the Treasury to Parliament. The FSA operated independent of the government. The FSA's statutory objectives were to market confidence, public awareness, consumer protection, and reduction of financial crime. The FSA did this by issuing rules and guidelines. Additionally, as a member of the European Union, the U.K.'s laws conform to EU directives including UCITS IV and MiFID.

The FSA was also the organization responsible for regulating fund advertising and sales practices. Since 2006, the FSA has undertaken a comprehensive Retail Distribution Review. 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 advisor remuneration to distort consumer outcomes; and
- Increase the professional standards of advisors.

In addition to the FSA's RDR, the government in the U.K. is implementing a complete overhaul of the financial regulatory regime. The changes will move the FSA's duties to the Bank of England and two new subagencies: 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 U.K. based upon the regulations in place and our observations over the years prior to this survey.

As this research paper went to press, new rules created on the back of the FSA's Retail Distribution Review had just come fully into force. The rules are explicitly designed to eliminate any linkage between fund selection by advisors and the payment of commissions by fund houses. As of Jan. 1, 2013, advisors are banned from receiving commission payments from fund houses. The main effects are that funds now offer a class free of all commissions (most equity funds, for example, now have an ongoing management charge of 0.75%, compared with 1.50%-plus previously) and that most investors are expected to pay advisors directly for their services. In addition to ensuring that investor outcomes are not skewed by incentives provided by funds, the proposals should increase transparency in fees such that investors are more aware of what they pay for investment advice versus fund management.

In much of Europe, including the U.K., there is an industry perception that fund regulations are changing constantly and almost too fast for fund sponsors to keep up with and for investors to

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familiarize themselves with the changes. Our analysts generally indicate that this is due to pan-European changes rather than changes to the domestic regulations. The regulators are staffed sufficiently for comprehensive enforcement actions, but historically we have rarely observed proactive oversight identifying improprieties. It could be argued that RDR is one proactive step in preventing improprieties that are concerning to regulators. Additionally, local observers note that the FSA does not pay salaries that are competitive with the industry, so the regulator has difficulty retaining personnel. Some enforcement actions are public in the U.K. The regulation and supervision of fund advertisements are perceived as effective. Interestingly, in March 2013, the British Treasury proposed to adopt a self-regulatory model for the fund industry. The initial indication is that the Investment Management Association would play a bigger role in proposing rule changes. It is unclear how these changes would occur in practice, but we have found that similar approaches have worked effectively in other markets including Switzerland.

All countries in this survey, including the U.K., require funds to be audited by an independent party at least once a year. Fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, and the two 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 EU, the U.K. complies with MiFID, which requires that soft-dollar arrangements be used for the benefit of investors and be disclosed, and that managers seek best execution of trades. The FSA Conduct of Business Sourcebook, or COBS, specifically outlines permissible soft-dollar transactions. The U.K. allows soft-dollar arrangements that adhere to these restrictions and requires that they be disclosed to investors.

Among funds domiciled in the U.K., there are two primary legal types of open-end collective investments: open-end investment companies and authorized unit trusts. OEICs are required to have boards of directors. However, there is no requirement that the board be independent, and boards can and often do consist of a single member: the authorized corporate director, which is typically the fund company itself. AUTs are governed by trust law and must have an independent entity as a trustee. Closed-end funds, known as Investment Trusts in the U.K., must have an independent board of directors.

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

The U.K. allows funds registered in compliance with the UCITS IV directive to be marketed to British investors. Foreign-domiciled funds are somewhat available in the U.K. However, many independent advisors are not familiar with foreign funds and do not offer these to investors, leading investors to prefer funds domiciled in the U.K.

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In the U.K., there are tax incentives for individuals who invest for retirement in a pension scheme and Individual Savings Accounts. 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 U.K. Contributions by individuals into personal pension accounts are made net of tax, but the pension provider will claim back the tax paid from the government at the basic rate, and higher-rate taxpayers receive further relief via self-assessment. Beginning in April 2010, some of these tax exemptions started to phase out for individuals earning more than GBP 150,000. Pension plans have different regulations from taxable funds, but many fund choices are available in both types of accounts.

Investors in the U.K. can use ISAs to minimize the taxes on long-term savings. There are limits to annual contributions, but assets invested can be removed from ISAs prior to retirement. In comparing the tax treatment of long-term mutual fund investors, we determined that a rational British investor would choose an ISA for a five-year holding period whenever contribution limits or a previous ISA balance permitted its use. Holdings within ISAs are exempt from taxes on interest income. Dividends received by funds are subject to a 10% tax annually, reducing reinvested amounts, but, as these are paid by the fund, shareholders don't face these directly. Both long-term and short-term capital gains earned within the fund, and by the investor upon liquidation of fund shares, are generally exempt from further taxation. For our hypothetical, we assumed the investor's assets are all within the ISA. The resulting tax reduction is only 0.13% annually, on a balanced fund with 6.29% pretax return. In the U.K., investment services are exempt from the country's Value Added Tax.

Disclosure

As a member of the EU, funds in the U.K. are compliant with UCITS. Under the UCITS IV directive, the simplified prospectus was replaced by the Key Investor Information Document, which by regulation must be in place after July 1, 2012. The KIID is required to pertain to only one fund at a time and is typically two pages long. Regulations require that the KIID be written in plain language. The KIID also contains a section describing the strategy and objective of the fund, but the details provided are at best only somewhat helpful for an experienced investor in comprehending the fund's strategy. The KIID presents risks clearly in narrative form and also provides a risk/reward score according to a standardized scale that allows for ease of comparison across funds.

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

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

Across the EU, all investment funds compliant with UCITS are subject to the same minimum disclosure requirements and operating regulations, although local regulators may impose additional requirements for funds sold in their markets. This includes open-end and exchange-traded funds. Other products such as ETNs, ETCs, closed-end funds, and structured products have separate regulations. In the U.K., fund companies must publish shareholder reports semiannually. The financial statements must be examined by an auditor that is not associated with the asset-management company within 120 days after the fiscal year ends. The financial statements within the shareholder reports include comparisons to the prior year. Management's discussion of performance is required information, but it is typically general and does not tie portfolio actions to fund performance.

In shareholder reports, monetary costs used to calculate the Total Expense Ratio are sometimes provided, but they are not in any uniform format. Fees are often presented in aggregate such that investors cannot tell which portion of fees covers which services. However, funds in the U.K. are not required to provide examples of the impact of fees or disclose portfolio turnover ratios in shareholder reports. Actual brokerage commissions are available in the financial statements. Pan-European regulations require the inclusion of acquired fund expenses when more than 10% is invested in another fund. Currently most investors cannot easily tell how much they are paying for each of the various fund services, although investors should more easily be able to separate management from distribution costs as implementation and enforcement of the RDR continues. Funds are required to file a "long-form" report to the regulator (the FSA) and to provide a less-detailed, "short-form" report to investors by default. The short-form report omits many things, including the complete portfolio holdings. Funds are required to supply the full long-form report to shareholders on request.

Mutual funds in the U.K. are required to disclose full portfolio holdings in their long-form annual and semiannual reports. These are filed with the regulator and made available on request.

Funds domiciled in the U.K. 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.

The U.K. does not have a publicly sponsored website with an electronic repository of fund documents.

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MORNINGSTAR®

Fees & Expenses

In the U.K., stated initial sales charges (loads) and breakpoints are negotiable with the sales agent. However, this is only relevant to pre-RDR legacy share classes. Under the new rules generated by the RDR, most new investments will flow into classes that are free of sales charges and ongoing trail commissions. It is expected that under RDR fees will be paid directly by the investor to their advisor for services rendered. An exception is made for restricted advisors who elect to only offer "basic advice," although here strict disclosures are mandated.

Historically, investors in the U.K. sometimes have paid for advice separately through fees instead of through loads and embedded trail commissions. However, this number is expected to go up significantly because of the introduction of RDR share classes for which loads and trail commissions are banned.

Prior to the implementation of RDR, between 50% and 75% of both share classes available for sale and domiciled in the U.K. reported a front load. The implementation of the RDR has resulted in the mass creation of share classes that investors are able to purchase without paying a load or retrocessions, as advice is now largely required to be paid for directly by fund investors to their advisors. Thus, the percentage of share classes that report charging a front load is expected to decrease in the future. However, as of yet RDR share classes without loads are inaccessible to most investors and make up a moderate percentage of investment assets.

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

British individual investors have the choice to invest in locally domiciled funds as well as UCITS funds with distribution operations in the U.K. The TERs of equity and fixed-income funds domiciled in the U.K. are moderately lower than those offered by foreign fund sponsors. The following estimates reflect the available data in the fourth quarter of 2012, therefore many share classes are included that are no longer available for sale because of RDR, and RDR-complaint share classes are not fully reflected in these data. The launch of RDR classes will skew costs lower going forward as most such classes are substantially less costly (50% less in the case of most equity funds) than non-RDR classes. However, it is as yet unclear how much investors will have to pay outside of fund structures for advice, so the impact on total cost of ownership is not known.

The median asset-weighted expense ratios for funds in the U.K. are:

Fixed-Income 1.22%	**Equity** 1.75%	**Allocation** 1.64%	**Money Market** 0.40%
Fixed-Income / Domiciled 1.18%	**Equity** / Domiciled 1.66%	**Allocation** / Domiciled 1.60%	**Money Market** / Domiciled 0.38%

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Sales & Media

In the U.K., both funds and insurance-linked funds are common investment products. Insurance products have a small tax advantage. Frequently, funds held within the insurance wrapper are also available to direct investors.

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 U.K. Historically, it is estimated that over 80% of funds in the U.K. are sold through a distributor with an open-architecture system.

Mutual funds in the U.K. generally have investment minimums, but these are frequently waived for investors in an automatic investment plan. The median investment minimum of both share classes available for sale and domiciled in the U.K. is less than USD 500. These figures reflect reported data, but our analysts observe that many major fund companies have higher minimums.

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In the U.K., investors must receive the KIID before purchasing shares in the fund. The ban on "off-the-page" is enforced; for example, online fund supermarkets require investors to certify receipt of the KIID. RDR requires advisors to consider all equivalent products when recommending investments to their clients.

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

In the U.K., the RDR has strictly prohibited independent advisors from soliciting or accepting "any commission, remuneration or benefit of any kind" for recommending funds. A subclass of restricted advisors offering "basic advice" can be compensated via commission, fee, or other benefit but must clearly disclose these arrangements to the client prior to providing services. The practice of using sales contests to motivate general sales of funds is prohibited.

We observe that investors in the U.K. can find mutual fund articles in their newspapers on a weekly basis. These articles now sometimes mention mutual fund fees when they are high, and they only sometimes promote long-term investing. This is an improvement from 2011; our local analysts note that more articles are mentioning fees and promoting long-term investment. We hope this trend continues.

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United States

Regulation & Taxation

In the United States, the Securities Exchange Commission is the primary regulator of investment funds. The SEC was created by the Securities Exchange Act of 1934. Its mission is as follows: "to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation."

Mutual funds in the U.S. are regulated under the Investment Company Act of 1940. The 1940 Act requires fund companies to register with the SEC. All fund regulations are derived from authority within this statute. The SEC has primary authority in regulating mutual funds, but when mutual funds invest through derivatives, those are regulated by the Commodities Futures Trading Commission. In recent years, there have been conflicts between the two regulators in regards to appropriate disclosure and which regulator should have primary authority regulating commodity pools structured as 1940 Act funds. In addition to these regulators, the Financial Industry Regulatory Authority, or FINRA, is a self-regulatory authority for securities firms doing business publicly in the U.S. FINRA administrates and interprets the SEC's legal framework for sales literature and fund advertising. Regulations in the U.S. are somewhat up-to-date, but they 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 the U.S. The regulation and supervision of fund advertisements is effective and prevents misleading advertising.

All countries in this survey, including the U.S., require funds to be audited by an independent party at least once a year. The 1940 Act requires that funds use a custodian to ensure safekeeping of fund assets. 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 U.S.

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-dollar arrangements is that such payments are permissible as long as the services provided are lawful and appropriate to portfolio-manager performance. There is no requirement that the soft-dollar arrangements specifically benefit fund shareholders, nor are there limitations on nonresearch benefits. Soft-dollar arrangements are to be disclosed in the prospectus.

In the U.S., funds are required to have a board of directors. There is a requirement that at least 40% of the board be independent directors.

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In the U.S., funds are prohibited from investing in securities from countries that are considered state sponsors of terrorism, as well as Iran and Cuba. In practice, most of these countries do not have liquid securities otherwise eligible for funds.

The U.S. requires funds domiciled in other countries to register under the 1940 Act in order to sell to American investors. Foreign-domiciled funds are not typically available.

In the U.S., 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. Additionally, there are Roth 401(k) plans that accept aftertax contributions, with no tax upon withdrawal. 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. Individuals also may participate in Individual Retirement Accounts. In a traditional IRA, contributions are made after taxes but are tax-deductible. 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 U.S., 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.

U.S. investors pay taxes on interest income earned within the fund on an annual basis, unless the income is derived from certain municipal securities that are exempt from federal taxation. Interest is subject to the full earned income marginal tax rate. Taxes on dividends are also paid annually. Most dividends are assessed at a qualified dividend tax rate, which is lower than the earned income rate. Fund investors in the U.S., unlike those in most other countries in this survey, are assessed capital gains taxes on realized gains within fund portfolios. In practice, funds distribute these taxable gains. Short-term capital gains are taxed at the investor's full marginal income tax rate, and long-term capital gains on assets held for more than one year are taxed at a lower capital gains rate. Taxes on investment funds are not withheld, and investors are responsible for taxes themselves. The return of a hypothetical investment earning 6.29% annually is reduced by 1.65%, resulting in an aftertax return of 4.64%.

There is no national consumption tax in the U.S. Additionally, fund management services are exempt from local consumption taxes, which generally do not tax services.

Disclosure

Funds in the U.S. are required to publish a simplified prospectus in addition to a full prospectus, shareholder reports, and other filings. It is common practice for funds to distribute simplified

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prospectuses to new and existing shareholders as a stand-alone document but consolidate a large number of simplified prospectuses into a single electronic document for government filings and postings on websites. When extracted as a stand-alone document these are typically four pages in length. The simplified prospectus as well as all other fund and corporate filings in the U.S. are required to be written in plain language without industry-specific jargon or legalese.

Simplified prospectuses sometimes include sufficient information for professionals to identify the exact investment strategy used by the portfolio managers. Risks are generally explained clearly within the document but frequently are too general. It is important that risks are specific to the investment at hand and not all investments.

Total Expense Ratios are presented on both a prospective and historic basis within the simplified prospectus. There is also an illustration of the effects of fees on a standard return on an investment from between one and 10 years. In addition to comprehensive information on expenses, the U.S. is the only country that requires both the names and tenures of the portfolio manager within the simplified prospectus. This document generally does not contain any information on investment holdings.

All retail investment products including open-end funds, closed-end funds, and exchange-traded funds in the U.S. are subject to the same reporting requirements. Funds are required to update their offering documents annually. Financial statements within fund literature include a comparison to prior-year results. Products are required to file quarterly financial statements as well as full semiannual and annual reports. Management's discussion of performance within reports is typically generic and does not tie the portfolio returns to specific market events and trades.

Within the financial statements, the monetary costs that compose the TER are disclosed in total and on a per-share basis. SEC regulations require that any expenses that are more than 5% of the TER are itemized within financial statements. Commissions paid are available within the shareholder reports so that investors can estimate trading costs; prospectuses also include a turnover ratio. For funds of funds, only the prospective expense ratio within the prospectus and simplified prospectus include acquired fund expenses, and the information in the financial reports only include expenses directly paid from fund assets. Fees are presented in a uniform format throughout all fund literature and marketing materials. Expense disclosure includes four prior years.

In the U.S., funds are required to publish full long and short portfolio holdings with the financial statements on a statement of investments. In practice, approximately 75% of funds provide Morningstar and investors with full holdings monthly with a reasonable delay, upon request.

Funds in the U.S. are required to include the names and tenures of the portfolio manager within fund literature, and there are specific disclosure requirements related to team-managed portfolios, which

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frequently name multiple managers. The U.S. has an additional disclosure document called the Statement of Additional Information. It 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 here. 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, which discloses how the fund has voted proxies of portfolio securities in the prior year.

Fund company filings in the U.S. can be found via an electronic database called EDGAR (Electronic Data Gathering, Analysis and Retrieval) developed by the SEC. EDGAR requires companies to file all documents and data electronically with the SEC in a timely manner. EDGAR allows individual investors to search its site, gain access to regulatory filings, and download the filings free of charge.

Fees & Expenses

In the U.S., stated loads and breakpoints are not negotiable with the sales agent. It is common for investors to switch from self-directed and commission-based accounts to fee-based advisory as their assets grow. This is less than a majority of investor accounts, but it may represent a majority of assets. Less than 25% of funds in the U.S. report charging a front load. Funds without loads or retrocessions are widely available and constitute a large part of investor assets. It is quite common for investors to purchase no-load funds and load-waived shares without significant retrocessions directly from funds and through Internet platforms without any advice received or advice fees paid; this is one area where the U.S. stands out as unique across all countries in the survey.

The U.S. is one of three countries in this survey to require that any performance fees paid to fund advisors include a symmetrical reduction in fees for underperformance, also known as fulcrum fees. The terms of fulcrum fees can be complex and disclosed poorly, and investors can only somewhat estimate fees based upon current performance.

In the U.S., 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 ratios for funds in the U.S. are:

Fixed-Income	Equity	Allocation	Money Market
0.63%	0.82%	0.77%	0.17%

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Sales & Media

In the U.S., investors still prefer open-end mutual funds, but there is a growing proportion of investors and advisors that prefers ETFs. Funds in the U.S. are well-established and dominate the investment choices available in investor retirement plans. 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 one sales channel dominates fund sales in the U.S. It is estimated that over 80% of funds, outside of 401(k) plans, are sold through a distributor with an open-architecture or guided-architecture system. Most 401(k) plans are guided-architecture and offer one or two choices for each market segment in order to reduce investment costs for participants while still offering investors a reasonable number of choices.

Mutual funds in the U.S. 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 U.S. is between USD 1,000 and USD 1,500.

"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 U.S., but in practice many telephone and online purchases occur prior to an investor receiving a simplified document. Advisors and other fund salespeople are required by FINRA to ensure that recommendations are suitable, but there is no requirement that all comparable products such as ETFs be considered.

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

In the U.S., the practice of compensating advisory firms for shelf space for particular funds is allowed with moderate 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 U.S. can find mutual fund articles in their newspapers on a daily basis. These articles sometimes mention mutual fund fees when they are high, and they often promote long-term investing.

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