

The Key Investor Information Template (reply to the CESR consultation)

8 September 2010

EuroInvestors (the European Federation of Investors or EFI) was created in the summer of 2009, following the financial crisis which demonstrated the limits of the almost exclusive dialogue between regulators and the financial industry, largely ignoring the user side. EFI aims at representing and defending at the European level the interests of financial services users in order to promote training, research and information on investments, savings, borrowings and Personal Finances of individuals in Europe, by grouping the organisations pursuing the same objectives at a national or international level. Already about 45 national organizations of investors and other financial services users have joined us, and EFI already represents about two million European citizens.

Summary

EuroInvestors (EFI) finds the Key Investor Information (KII) Template proposed by CESR for investment funds useful, but not clear enough on the “past performance” and “charges” sections. In particular, showing the past performance of a fund alone, without that of any comparable performance indicator is meaningless and could be very misleading.

Objectives and Investment policy

EFI appreciates that the “minimum recommended holding term” is mentioned as this is a very important information for retail investors, and should help them to avoid investment mistakes.

EFI also considers it is an absolute must to clearly indicate in this section “*whether the fund refers to a benchmark and if so to which one*”. We would prefer the following wording though:

“*whether the fund uses one or several performance indicators and if so which ones*”. The reasons are:

- that fund managers may have more than one performance indicator,
- the word “benchmark” may be misleading as it could be understood as referring to a “benchmarked” asset management of the fund as opposed to “absolute return” or “alternative” asset management. As EFI pointed out in the past, many “absolute return” or other “alternative” asset managers also have a performance indicator, such as - for example – LIBOR + x % or even the zero performance level.
- There are cases when a fund does not publicly “refer” to a performance indicator, but is de facto using one. For example all funds, including “alternative” ones, charging a performance fee, do obviously use a performance indicator: the one triggering the performance fee. Another example is money market funds: by definition, their performance should be measured against that of short term markets indices.
- As mentioned several times before, the past performance of a given fund is not useful if an investor cannot relate it to any performance indicator.

Charges of the fund

The basis for entry and exit charges on the one hand, and the one for ongoing charges on the other hand are inconsistent: the maximum figures in the first case recent historical ones in the second. It means that the KII must be updated every year, and that the investor may be charged higher fees than mentioned on the KII. There should be a warning about this higher cost risk.

It is not clear if “ongoing charges” are presented as a consolidated number: these charges must also include those of the underlying funds held in the fund’s assets portfolio. This is of course particularly important for funds of funds but also for any fund that may invest a significant portion of its assets into other funds.

It is also not specified whether charges include taxes (especially VAT),. Taxes must be included as they are part of the charges paid by the investor.

Past performance

The chart lacks the past performance of the comparable performance indicator(s). This is important because:

- Few funds have no performance indicators (explicit or implicit: see our comments on the “Objectives and Investment Policy” section above);
- Past performance of the fund without a comparable and objective performance indicator (avoid “peer group” type of indicators, see EFI’s comments on the KII¹) has no value and can be misleading;
- CESR should transform its current “advice” on the “choice of a benchmark” (requiring the use of comparable indicators²) into a rule, as the reality shows that it is not followed by major UCITS funds, which leads to serious misleading of investors. EFI is ready to provide evidence for this issue.

The “prominent” statement on the value of past performance data (“*its limited value as a guide to future performance*”) is misleading and not very consistent with the one in the “Risks and Rewards Profile” section (“*historical data may not be a reliable indication for the future*”). All evidence shows that historical performance data have no value as a guide to the future and are not a reliable indication for the future, especially if provided on a stand-alone basis, without those of a comparable performance indicator. We recommend a more accurate and clearer wording like: “*past performance is not an indication of the future one*”. This is all the more important as retail investors and retail intermediaries tend to focus a lot on past performance information to make or prescribe investment decisions.

¹ <http://euroinvestors.org/upload/positions/EuroInvestors%20response%20to%20KID%20CESR%20CP%202009%20%2009101281441097.pdf>

² i.e. that where the fund reinvests income, any linked index or benchmark should be shown on the same basis (example: when a fund reinvests income, the performance indicator should be shown on the same basis, like a »total return index« instead of a »price index« with no income reinvested, as it is too often the case).