



FMA Market Study on Fees charged by Austrian Retail Funds

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Executive Summary

- This FMA Market Study on Fees charged by Austrian Retail Funds is aimed at investors, and intends to put them in a position to be able to better compare and assess the different fees charged within a single category of funds, as well as between different categories of funds.
- For this purpose, the FMA collected information about fees and key investor information documents of Austrian retail funds pursuant to the Investment Funds Act 2011 (InvFG 2011), the Real Estate Investment Funds Act (ImmoInvFG) and the Alternative Investment Fund Managers Act (AIFMG) from a total of 22 investment fund management companies, real estate investment fund management companies, or alternative investment fund managers.
- 1,120 Austrian retail funds with total net asset values (NAV) of EUR 89.76 billion were covered in the analysis to obtain consistent information about the fund fees in the Key Investor Information Documents (KIIDs) and terms and conditions of the funds.
- The fees for a fund as well as the method for calculating the fees are to be defined in the terms and conditions of the fund. Furthermore, the fund fees, especially in addition to the objectives and the investment policy as well as the risk and reward profile of a fund, are required to be stated in a legally required Key Investor Information Document (KIID).
- The fund fees for all Austrian retail funds as a volume-weighted average of the maximum annual management fees stand at 1.21 %, the annual ongoing charges at 1.13 %, and 3.61 % in the case of the maximum entry charges for purchasing fund units. No significant changes have been identified in comparison with the aggregated fees as of 31.12.2017.
- The fees analysed differentiate between the different investment strategies and risk classes. In terms of the volume-weighted average, money market funds and short-term bond funds have the lowest charges by investment strategy, followed by bond funds, real estate fund, mixed funds and equity funds. For example, in terms of the volume-weighted average, bond funds have lower fund fees in comparison to equity funds in terms of the maximum management fees (0.99 % vs 1.59 %), ongoing charges (0.68 % vs 1.73 %) as well as in terms of the maximum entry charges (3.39 % vs 4.33 %). Considered on an aggregated basis, sustainable retail funds (in accordance with Austrian EcoLabel 49 for sustainable financial products) are not associated with higher fees in comparison with the market as a whole. The higher the risk category of a fund, then the higher the funds fees tend to be. This should not however be considered independently of the investment strategy of a fund.

1. Introduction

This FMA Market Study on Fees charged by Austrian Retail Funds is aimed at investors, and should put them in a position to be able to better compare and assess the different fees charged within a single category of funds, as well as between different categories of funds. It therefore assists in improving market transparency with regard to retail funds.

For this purpose, all investment fund management companies (KAGs), real estate investment fund management companies (Immo-KAGs) or alternative investment fund managers (AIFMs) that manage Austrian retail funds¹ under the Investment Fund Act 2011 (InvFG 2011), the Real Estate Investment Fund Act (ImmoInvFG) and the Alternative Investment Fund Manager Act (AIFMG), have been requested to submit information in a consistent format about fund fees to the FMA as well as other information contained in the Key Investor Information Document (KIID) as of the reporting date of 31.12.2018. All retail funds are prescribed under law to draw up a KIID with information that is structured in a consistent manner, containing objectives and the investment policy, the risk and reward profile as well as certain costs in relation to a fund. The significant information for investors that are contained in the KIID are intended to place investors in a position to be able reach a well-founded investment decision on this basis.

Regarding a consistent overview of fees charged for funds that are prescribed under law to be listed in the KIID or in the fund regulations, they are analysed from the perspectives of investment strategy and risk category in Chapter 2. The disclosing of risk and reward in the KIIDs published by retail funds is described in Chapter 3. Additionally, the various details about fund fees are explained in greater depth in Chapter 4.

2. Analysis of fund fees of retail funds

The analysis of funds fees surveyed Austrian retail funds, from a total of 22 investment fund management companies and real estate investment fund management companies or alternative investment fund managements, using 31.12.2018 as a reference date. These retail funds cover 1,120 funds (2,889 different share classes) with aggregate net asset values (NAV) of EUR 89.76 billion, which make up approx. 52 % of the entire Austrian fund market. The maximum management fees, ongoing charges and maximum entry charges are considered, analysed by investment strategies and risk categories.

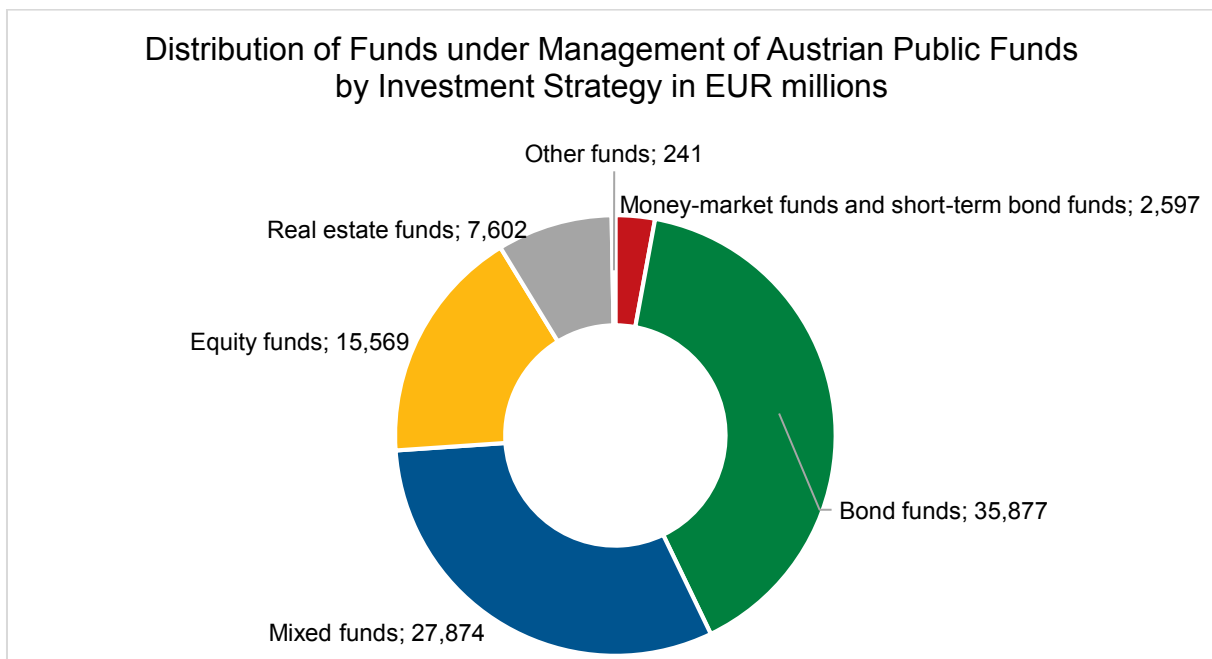
The quantitative analysis neither deals with the maximum exit charges in further detail, since they are only applied to a very minor extent in the case of retail funds (36 funds resp. 79 share classes, max. 5 % with a 1.6 % volume-weighted average) nor with performance-dependent management fees, since such fees differ greatly in terms of their design and therefore cannot

¹ The following legal categories of funds are classified as retail funds in the FMA Market Study: UCITS in accordance with the InvFG 2011, pension investment funds pursuant to Article 48 AIFMG in conjunction with Article 168 InvFG 2011, other assets (provided that they have been approved for distribution to private clients) pursuant to Article 48 AIFMG in conjunction with Article 166 InvFG 2011 as well as real estate retail funds pursuant to Article 48 AIFMG in conjunction with the ImmoInvFG.

be compared in a quantitatively consistent manner (142 funds, resp. 324 share classes, up to 25 % of the respective defined added value of the unit).

2.1. Fees by Investment Strategy

Funds may be classified by investment strategies, especially on the basis of the invested assets. In the case of retail funds in terms of NAV, bond funds form the largest category (EUR 35.88 billion or 40.0 %), followed by mixed funds (EUR 27.87 bn or 31.0 %), equity funds (EUR 15.57 bn or 17.3 %), real estate funds (EUR 7.60 bn or 8.5 %), money-market funds and short-term bond funds (EUR 2.60 bn or 2.9 %) as well as other funds (EUR 241 mn or 0.3 %).



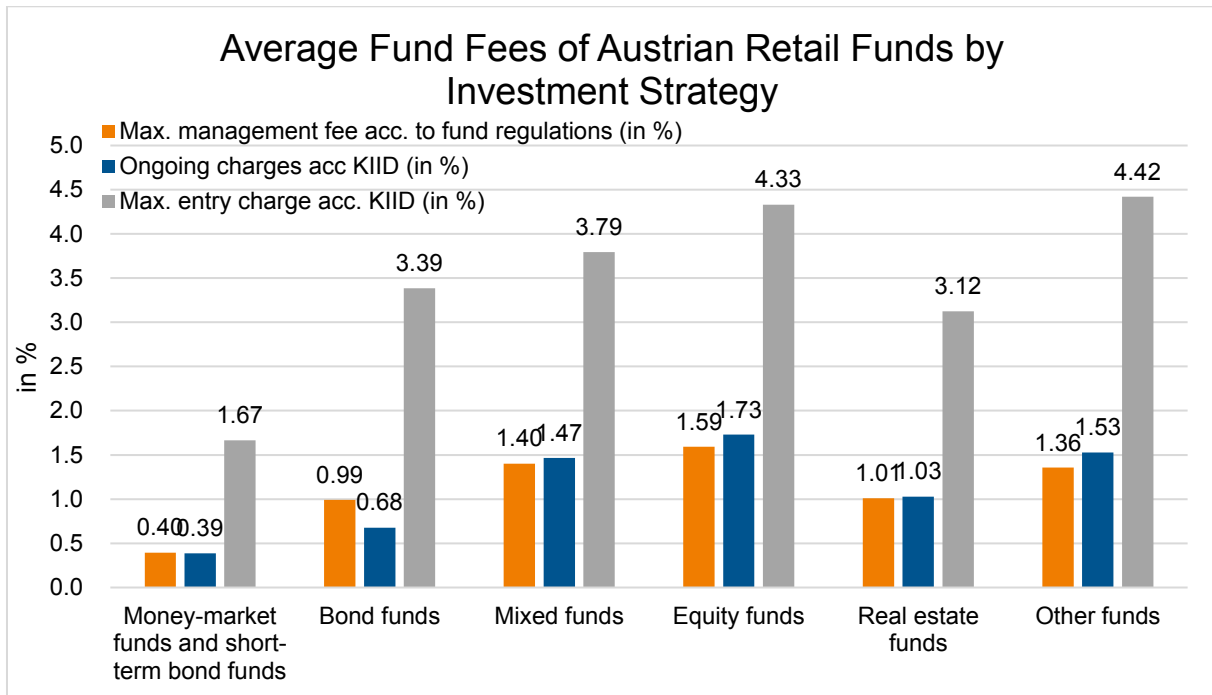
The volume-weighted average of the fees² of all retail funds is 1.21 % for the maximum management fee, 1.13 % for ongoing costs and 3.61 % for the maximum entry charge. All fees analysed differ consistently between different investment strategies. Money market funds and short-term bond funds have the lowest charges based on the volume-weighted average, followed by bond funds, real estate funds, mixed funds and equity funds.³ For example bond funds in terms of the volume-weighted average have lower fund fees in comparison to equity funds in terms of the maximum management fees (0.99 % vs 1.59 %), ongoing charges (0.68 % vs 1.73 %) as well as in terms of the maximum entry charges (3.39 % vs 4.33 %).

² All averages stated for fund fees relate to the respective volume-weighted averages.

³ The "other funds" category contains nine very heterogeneous funds, such as for example funds of hedge funds, micro-finance funds and other strategy funds, meaning that due to the small number as well as the heterogeneity of them that they cannot be compared with the other classes.

Austrian Retail Funds as at 31.12.2018	Funds	NAV	Max. management fee acc. to fund regulations (in %)		Ongoing charges acc. KIID (in %)		Max. entry charge acc. KIID (in %)	
			Average	Max	Average	Max	Average	Max
Money-market funds & short-term bond funds	26	2,597	0.40	1.00	0.39	1.13	1.67	7.00
Bond funds	324	35,877	0.99	2.40	0.68	2.41	3.39	10.00
Mixed funds	482	27,874	1.40	3.10	1.47	4.02	3.79	10.00
Equity funds	272	15,569	1.59	2.75	1.73	3.32	4.33	10.00
Real estate fund	7	7,602	1.01	1.80	1.03	1.68	3.12	5.00
Other funds	9	241	1.36	2.40	1.53	2.60	4.42	5.00
Total	1,120	89,760	1.21	3.10	1.13	4.02	3.61	10.00
UCITS	971	75,498	1.21	3.10	1.12	4.02	3.62	10.00
AIFs	149	14,262	1.18	3.00	1.19	3.72	3.57	10.00

In addition to a classification of funds by investment strategies on the basis of the assets that are predominantly invested in, it is also possible to differentiate by strategic approach i.e. between whether the investment strategy is pursued is active or passive. An active investment strategy is characterised by its composition and/or the selection of the assets being adjusted by a manager depending on the market situation. The objective is to react to changes in the market and to achieve as optimal as possible an investment result (in terms of earnings to risk) or to be able to outperform a benchmark. In contrast, there are also passively managed investment strategies, in which the investment objective the objective of the investment is to reproduce the performance of an index. This requires less intervention by the asset manager, so that their efforts and therefore generally speaking the fees are also lower. The majority of Austrian retail funds pursue an active investment strategy. There are only eleven retail funds that pursue, according to the funds themselves, a passive investment strategy. Due to the difference in the number of funds, a comparison is only possible on a limited basis; passive funds however for example in terms of the volume-weighted average costs have around half the costs (0.54 %) in comparison with active funds (1.13 %).

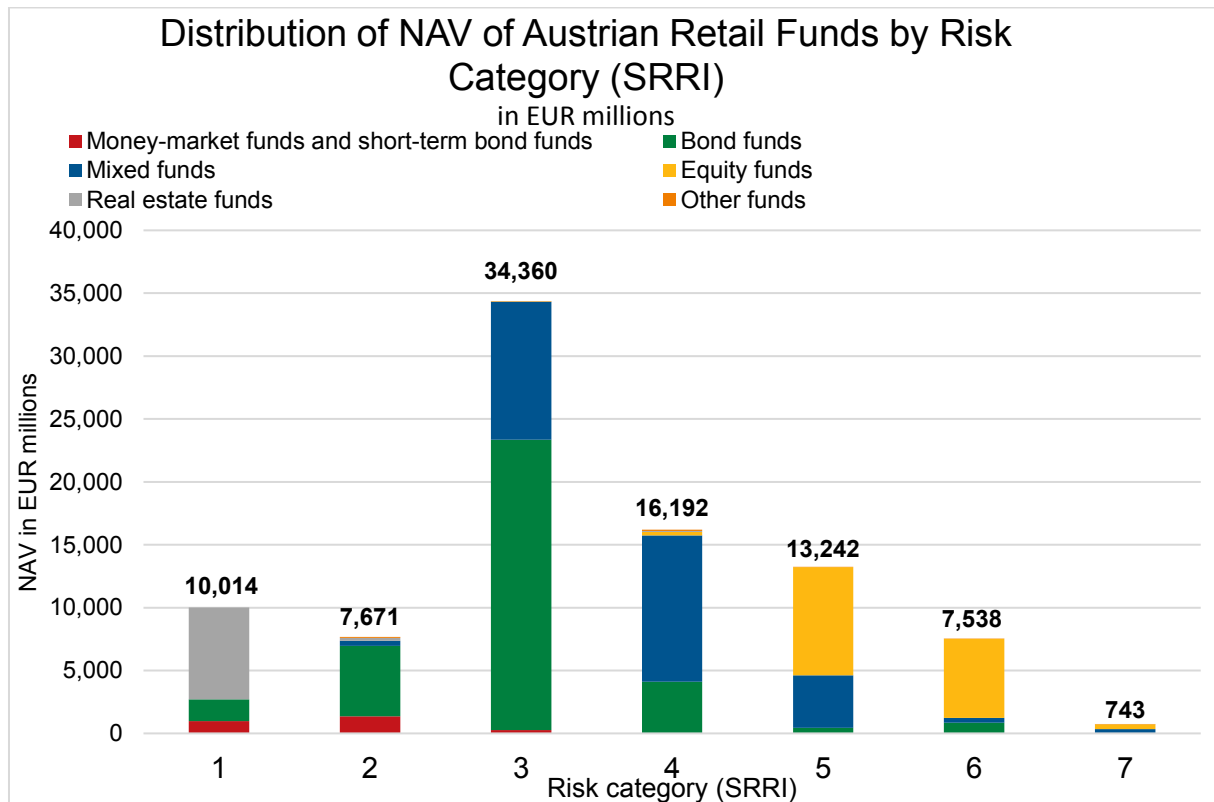


Furthermore, there is a growing number of retail funds that base their investment policy in accordance with ecological and ethical/social criteria as defined in Austrian Ecolabel 49 (Umweltzeichen 49; UZ 49) for sustainable financial products.⁴ A total of the 52 of the retail funds covered in this FMA Market Study based their investment policy on UZ 49). Sustainable funds in accordance on the basis of UZ49 in terms of volume-weighted average do not have higher fund fees in terms of maximum management fees (1.12 %) ongoing charges (1.03 %) as well as the maximum entry charges (3.2 %) in comparison to the market as a whole.

2.2. Fees by risk category

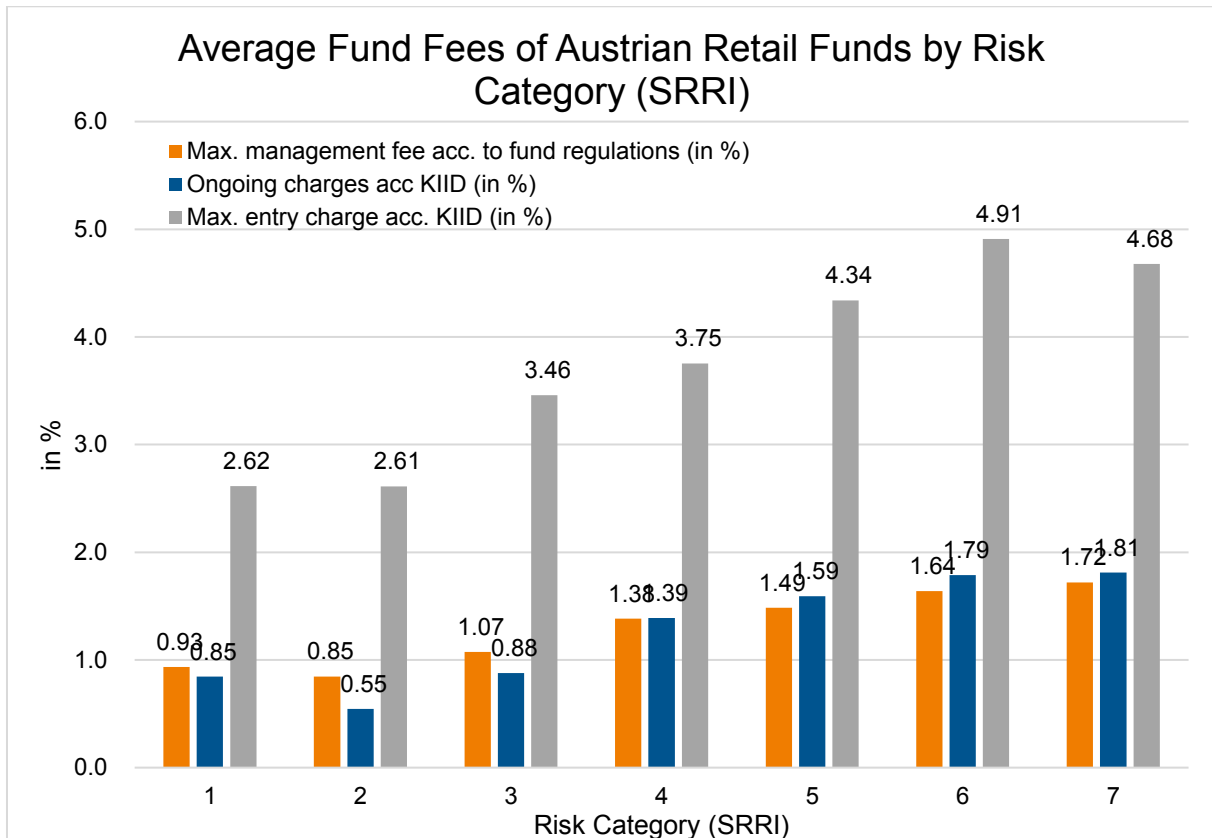
By risk category, defined as the synthetic risk and reward indicator (SRRI) in risk classes 1 to 7 the majority of retail funds, calculated on the basis of NAV fall in the middle risk categories 3 to 5. Real estate funds have the lowest risk category, following by money-market funds and short-term bond funds, bond funds, mixed funds and final equity funds that are allocated to the higher risk categories. The average risk category of all Austrian retail funds on the basis of the volume-weighted average is 3.45.

⁴ For details about Austrian EcoLabel 49 (UZ49) for sustainable financial products see (in German): <https://www.umweltzeichen.at/de/produkte/finanzprodukte>



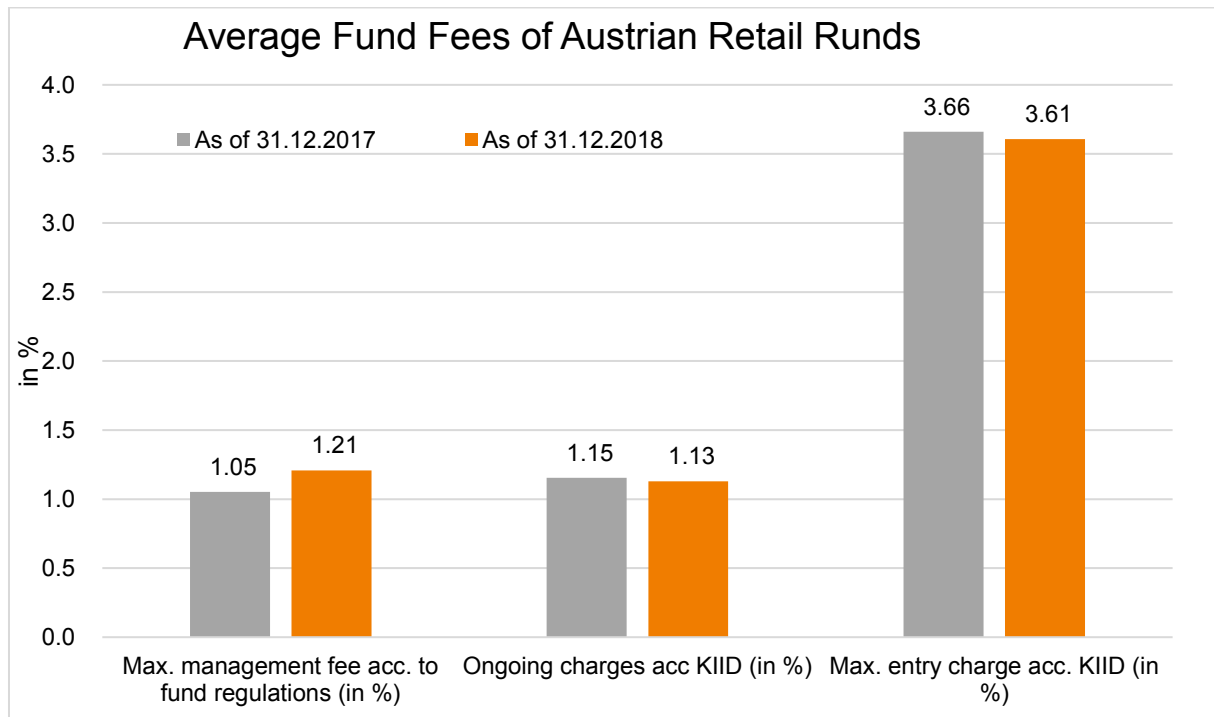
When looking at the risk category of the fund, the fee structure shows a similar tendency as it does based on the investment strategy: the higher the risk classification, the higher the fund fees tend to be. This should not however be considered independently of the investment strategy of the fund as well as the respective associated costs. This explains the higher values for real estate funds in risk category 1.

Austrian Retail Funds as at 31.12.2018	Funds	NAV	Max. management fee acc. to fund regulations (in %)	Ongoing charges acc. KIID (in %)	Max. entry charge acc. KIID (in %)
SRRI	Quantity	in EUR mn	Average	Average	Average
1	32	10,014	0.93	0.85	2.62
2	102	7,671	0.85	0.55	2.61
3	323	34,360	1.07	0.88	3.46
4	262	16,192	1.38	1.39	3.75
5	287	13,242	1.49	1.59	4.34
6	97	7,538	1.64	1.79	4.91
7	17	743	1.72	1.81	4.68
Total	1,120	89,760	1.21	1.13	3.61



2.3. Annual fee comparison

Since this FMA Market Study on Fund Fees for Austrian Retail Funds was first published for the reporting date of 31.12.2017, the aggregated fees in the Austrian fund market may be examined and compared on a year-on-year basis for potential changes. In comparison between 31.12.2017 and 31.12.2018 the fees have only changed marginally in relation to the maximum management fees (1.05 % vs 1.21 %), ongoing charges (1.15 % vs 1.13 %) as well as maximum entry charges (3.66 % vs 3.61 %), with no significant trends being detectable between the different investment strategies. Minor changes on an aggregate level are not necessarily the result of changes in fee structure, but may instead result from changes in the fund assets of groups of funds as a result of inflows or outflows of funds as well as changes in market value. It is to be expected that potential changes in the market structure of funds fees will only become apparent once trends have been observed across several years.



3. Disclosing of risk and reward in the Key Investor Information Document (KIID)

The risk and reward profile of a retail fund must be stated in the KIID. In particular historic performance is to be shown, the potential risks explained, and the risk category of the fund disclosed.

Information about the historic performance of a retail fund must be presented in the KIID in the form of a bar chart that shows the annual performance for the last ten years. The calculation method for the historic performance is based on the net asset value (NAV) of the fund and assumes that any distributed proceeds are reinvested (calculation on the basis of accumulation). For Austrian funds the performance is calculated by the Oesterreichische Kontrollbank AG (OeKB) on a consistent basis using the NAV value of a fund provided by the investment fund management companies.⁵ The development of the NAV must also be published in the annual report about the fund; detailed breakdowns of assets are contained in both the annual reports and the half-yearly reports of the funds.

In addition to disclosure about historic performance of a fund, the KIID must also present the fund's risk profile. This also contains an explanation of the potential risks as well as disclosing the SRRI as a risk category of a fund. The SRRI is based on the historic volatility of a fund and

⁵ For details about the calculation of performance of funds see the OeKB's Investment fund ratio calculation document (available in German only "Investmentfonds Kennzahlenberechnung"), which is applicable from 01.01.2007: <https://www.oebk.at/dam/jcr:0a44f765-cf16-42a7-b601-43ce13afaab6/OeKB-Kennzahlenberechnung-Investmentfonds-2007-01.pdf>

states this on a scale from 1 to 7. The higher the SRRI, the higher the risk is in terms of volatility. By stating the SRRI investors should be able to receive an easy to understand estimation of the risk of a fund on the basis of historic price fluctuations prior to investing in a fund.

4. Explanation of fund fees of retail funds

The remuneration and reimbursement of costs that a management company is allowed to draw off from the fund assets, as well as the nature of the charges must be defined in the fund regulations. Furthermore the fees charged by a fund are required to be stated in the KIID. They can be broken down into one-off entry and exit charges, ongoing charges within a year as well as any other performance-dependent fees.

It should be noted that the share classes of a fund (classes of fund units) may vary, especially with regard to the how the proceeds are used, the currency in which the value of the unit is denominated as well as the fund fees.

4.1. Maximum entry and exit charges in % of the NAV

The maximum entry charge is the largest amount in percent of this one-off fee charged when buying units in a fund. Unlike the management fee the entry charge is a remuneration when purchasing units, which are usually passed on as commission for mediation to the distribution channel, and varies depending on the share class of a fund. The maximum exit charge is the largest amount in percent of the fee to be paid on a one-off basis when redeeming units in funds. In contrast to the entry charge, an exit charge is not typical in the market in the case of retail funds.

The maximum entry and exit charges are required to be stated in both the fund regulations as well as in the KIID.

4.2. Maximum management fee as a % of the NAV

The management fee is stated as an annual maximum fee in percent of the NAV and is disclosed in the fund regulations. This amount, however, as a rule covers most but not all costs, since inter alia custodian fees, entry charges, exit charges, transactions costs, other performance-related management charges may also be incurred.

4.3. Ongoing charges according to the KIID as a % of the NAV

The actually occurring costs of the fund during a year as a percentage of the NAV are expressed as the ongoing charges in the KIID; they may therefore fluctuate from one year to the next.

The ongoing charges cover all types of costs that the fund has to bear, regardless of whether they are ongoing charges or the remuneration of persons providing services for the fund. The components of the ongoing charges consist of management fees, custodian banks fees, fees for investment advisors, all payments that may be incurred as a result of outsourcing,

registration fees, supervision fees or similar fees, remuneration of statutory auditors, remuneration for legal and business advisers as well as any other distribution fees. Costs that are not taken into consideration as running costs include entry and exit charges, intermediation commission, transaction costs as well as performance-related management fees.

4.4. Performance-dependent management fees

Performance-dependent management fees are fees that are tied to the performance of the fund, and therefore only become apparent under certain circumstances. The precise definition of how such fees are calculated may differ strongly between funds depending on the desired investment strategy. Performance-dependent management fees may be defined in absolute terms in relation to the historic performance of the fund or in relative terms, using an index as a benchmark.

One example of a performance-dependent management fees calculated in absolute terms would be a defined percentage of the growth of the unit value compared against the last unit value having an effect on performance fees (the high-water-mark method). One example of a performance-dependent management fees calculated in relative terms would be a defined percentage of the growth of the unit value above a defined benchmark⁶ using the high-water-mark method. The high-water-mark method thereby ensures that a performance-dependent management fee is only charged only once the previous highest prices are reached again and the performance continues to increase further thereafter.

Fees that are tied to the performance of the fund must be stated in both the fund regulations as well as in the KIID.

⁶ For example, a performance-dependent management fee in the amount of 15% of the fund's increase in value against the increase in value of the ATX.