



FMA Market Study on Fees charged by Austrian Retail Funds 2020

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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 for the year 2020, 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 20 investment fund management companies, real estate investment fund management companies, or alternative investment fund managers.
- 1,035 Austrian retail funds with total net asset values (NAV) of EUR 101.44 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 1.23 %, the annual ongoing charges at 1.14 %, and 3.60 % in the case of the maximum entry charges for purchasing fund units. No significant changes have been identified in comparison with the aggregated fees in previous years.
- 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 (0.98 % vs 1.60 %), ongoing charges (0.66 % vs 1.71 %) as well as in terms of the maximum entry charges (3.41 % vs 4.25 %). Sustainable retail funds (in accordance with Austrian EcoLabel 49 for sustainable financial products) considered on an aggregated basis show marginally lower fees in comparison with the market as a whole. The higher the risk category of a fund, then the higher the fund's 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 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. It therefore assists in the interests of collective consumer protection 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) for 2020.² 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 to understand the nature and risks involved for a fund, and on this basis to reach a well-founded investment decision. KIIDs must be updated and published annually at latest within 35 calendar days after 31 December.

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 return in the KIIDs published by retail funds is described in Chapter 3. Additionally, the various details about fund fees are explained in greater as background information in Chapter 4.

2. ANALYSIS OF FUND FEES OF RETAIL FUNDS

Funds fees collected from Austrian retail funds from a total of 22 investment fund management companies and real estate investment fund management companies or alternative investment fund managements were analysed with 31.12.2019 as a reference date. These retail funds

¹ In this FMA Market Study, the following legal fund categories are classified as retail funds: UCITS under the InvFG 2011, pension investment funds pursuant to Article 48 AIFMG in conjunction with Article 168 InvFG 2011, other assets (where approved for distribution to retail clients) pursuant to Article 48 AIFMG in conjunction with Article 166 InvFG 2011, and real estate retail funds pursuant to Article 48 AIFMG in conjunction with the ImmoInvFG.

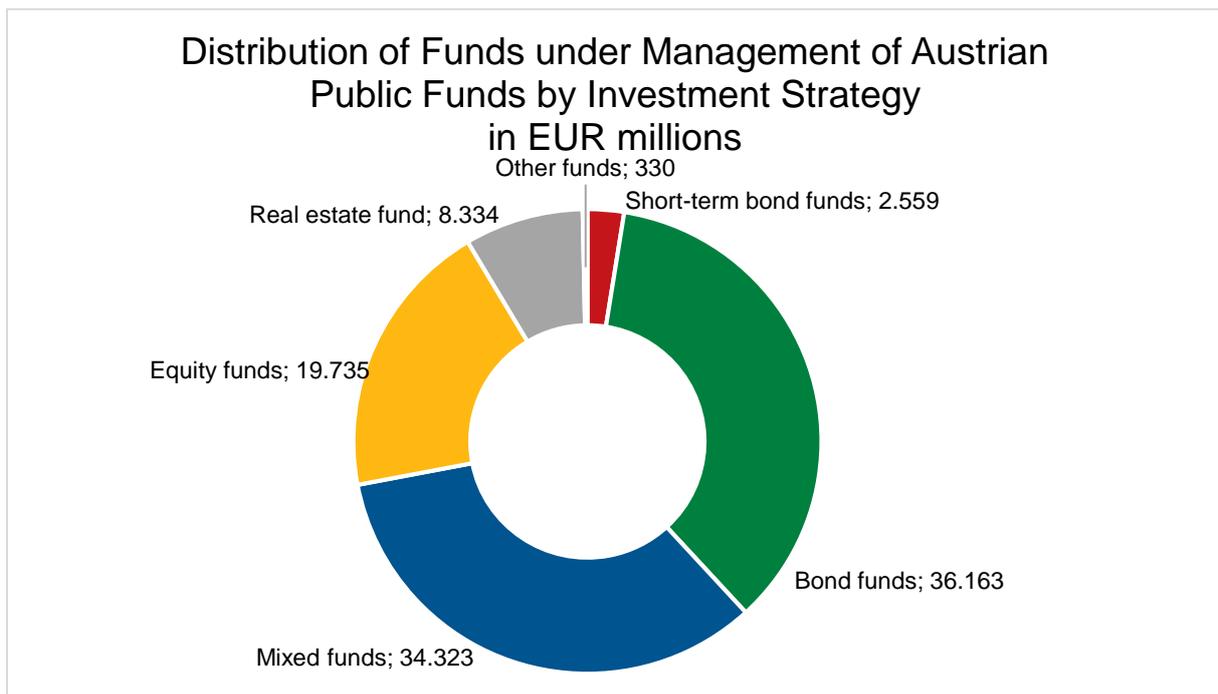
² This market study incorporates the updated and published KIIDs that were updated pursuant to Article 23 of Regulation (EU) 583/2010 at latest 35 calendar days after 31.12.2019 considering the net asset values (NAVs) of all Austrian retail funds as of 31.12.2019. This approach is an extension of the approach used in previously published FMA Market Studies for 2018 and 2019, so that it was not the KIID as of the annual reporting date, but instead surveyed by the respective KIID that had already been updated for the current year, 2020.

cover 1,035 funds (2,873 different share classes) with aggregate net asset values (NAV) of EUR 101.44 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 only apply to a very low extent in retail funds (27 funds or 70 share classes, max. 5 % with a volume-weighted average of 0.89 %) nor with performance-dependent management fees, since such fees differ greatly in terms of their design and therefore cannot be compared in a quantitatively consistent manner (113 funds, or 260 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 36.16 billion or 35.7 %), followed by mixed funds (EUR 34.32 bn or 33.8 %), equity funds (EUR 19.74 bn or 19.5 %), real estate funds (EUR 8.33 bn or 8.2 %), money-market funds and short-term bond funds (EUR 2.56 bn or 2.5 %) as well as other funds (EUR 330 mn or 0.3 %).



The volume-weighted average of the fees³ of all retail funds is 1.23 % for the maximum management fee, 1.14 % for ongoing costs and 3.60 % for the maximum entry charge. All fees analysed consistently differ between different investment strategies. The lowest volume-weighted average fund fees are seen in short-term bond funds, followed by bond funds, real

³ All averages stated for fund fees relate to the respective volume-weighted averages.

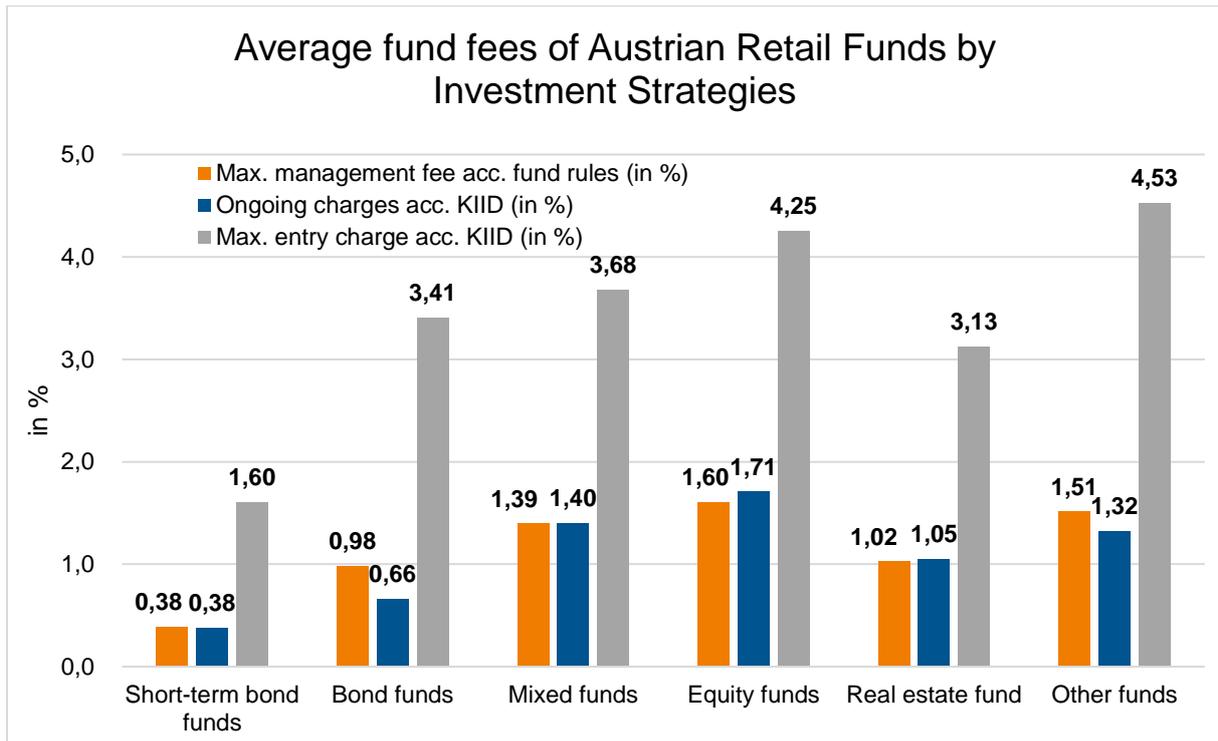
estate fund, mixed funds and equity funds.⁴ For example, in terms of the volume-weighted average, bond funds have lower fund fees in comparison to equity funds in terms of the maximum management fees (0.98 % vs 1.60 %), ongoing charges (0.66 % vs 1.71 %) as well as in terms of the maximum entry charges (3.41 % vs 4.25 %).

Austrian Retail Funds	Funds	NAV as of 31.12.2019	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
Funds category	Quantity	in EUR mn	Average	Max	Average	Max	Average	Max
Short-term bond funds	20	2,559	0.38	1.00	0.38	1.21	1.60	7.00
Bond funds	285	36,163	0.98	2.40	0.66	2.52	3.41	10.00
Mixed funds	467	34,323	1.39	3.00	1.40	3.58	3.68	10.00
Equity funds	248	19,735	1.60	2.75	1.71	3.40	4.25	10.00
Real estate fund	7	8,334	1.02	1.80	1.05	1.65	3.13	5.00
Other funds	8	330	1.51	2.40	1.32	2.26	4.53	5.00
Total	1,035	101,444	1.23	3.00	1.14	3.58	3.60	10.00
of which sustainability funds in acc. UZ49	70	9,143	1.21	2.63	1.09	3.49	3.14	5.25
of which UCITS	901	86,305	1.24	3.00	1.13	3.58	3.60	10.00
of which AIF	134	15,139	1.18	3.00	1.17	3.31	3.56	10.00

Furthermore there is a growing number of retail funds, which determined their investment policy in accordance with ecological and ethical and social criteria as defined in Austrian Ecolabel 49 for Sustainable Investment Products (UZ49).⁵ This includes 70 of the retail funds included in this FMA Market Study. Sustainability funds in accordance with Ecolabel 49 have slightly lower fund fees based on the volume-weight average in relation to maximum management fees (1.21 %), ongoing charges (1.09 %) as well as the maximum entry charge (3.14 %) compared to the market as a whole.

⁴ The “other funds” category contains 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.

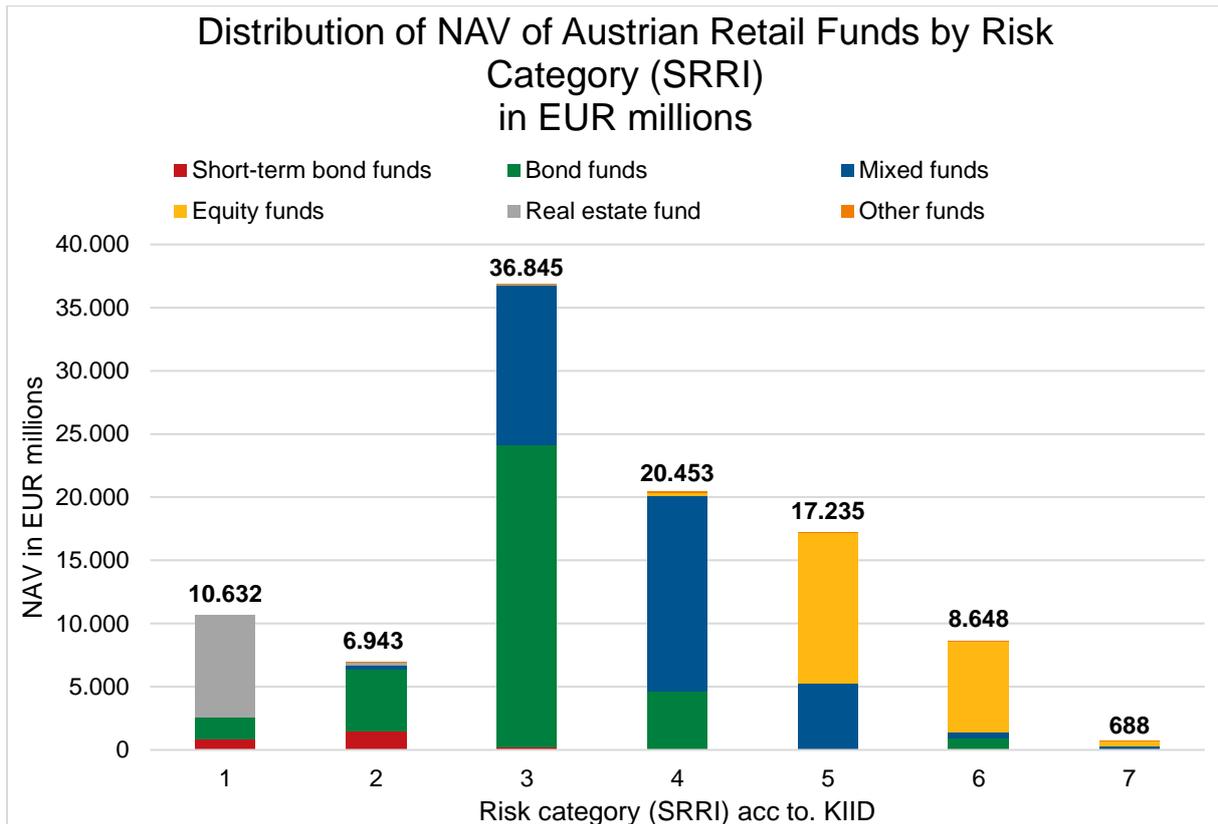
⁵ For details about Austrian Ecolabel 49 for Sustainable Investment Products (UZ49) see <https://www.umweltzeichen.at/en/products/sustainable-finance>.



In addition to the allocation of funds based on the investment strategy by the majority of invested assets they may also be differentiated by the strategic approach taken, i.e. whether an active or passive investment strategy is pursued. An active investment strategy is characterized by the composition and/or the selection of the assets being adapted by a manager, depending on the prevailing 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 outperform a benchmark. In contrast, there are also passively managed investment strategies, in which the investment objective is to reproduce the performance of an index. This requires less intervention by the asset manager, with the consequence that their efforts and therefore generally speaking fees are also lower. The majority of Austrian retail funds pursue an active investment strategy. There are only three Austrian retail funds that themselves claim to pursue a passive investment strategy.

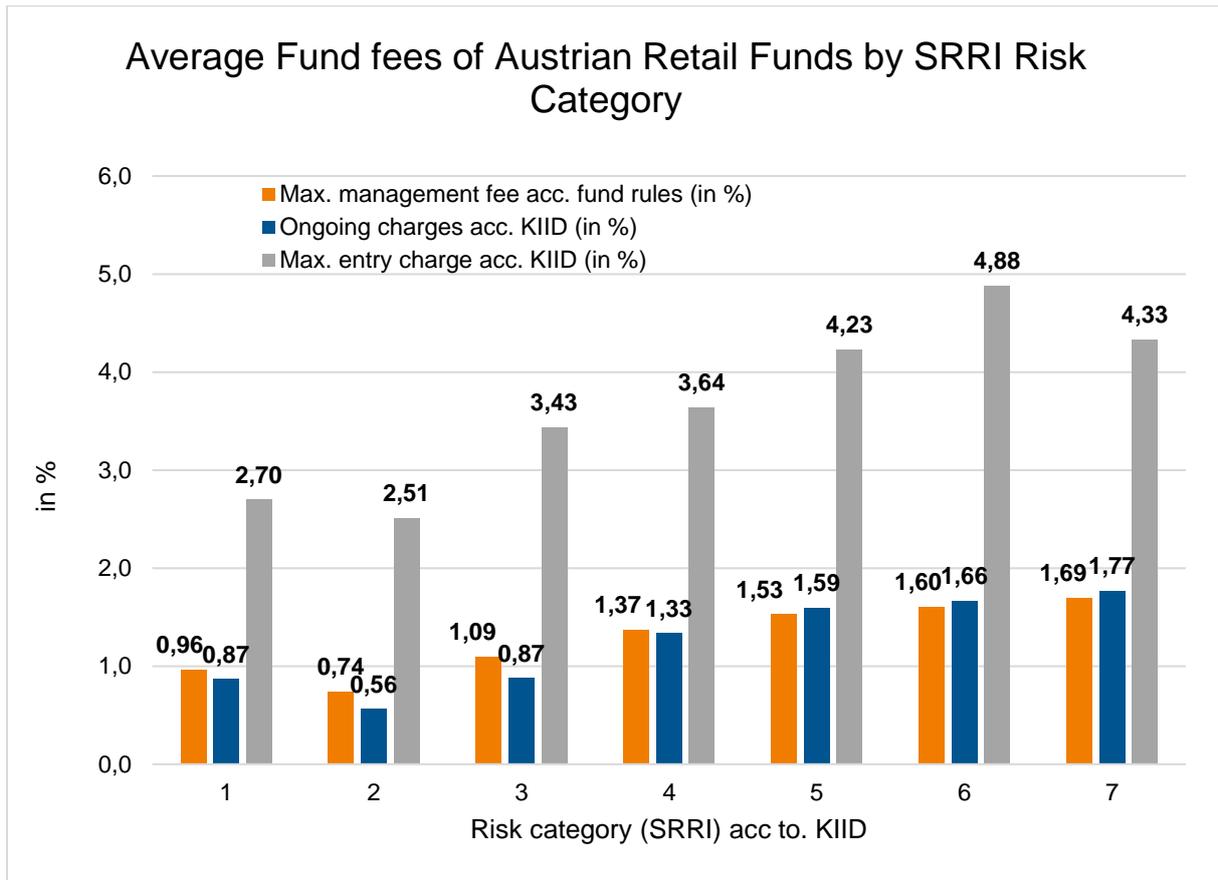
2.2. FEES BY RISK CATEGORY

In terms of risk category, defined using the synthetic risk and reward indicator (SRRI) into risk classes 1 to 7, the majority of retail funds on the basis of NAV fall in the middle risk categories 3 to 5. Real estate funds have the lowest risk category, following by short-term bond funds, bond funds, mixed funds and finally equity funds, which 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 3.55.



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 apply unconditionally and depends on the investment strategy of the fund as well as the respective associated costs. This explains the higher values from most cost-intensive real estate funds in risk category 1.

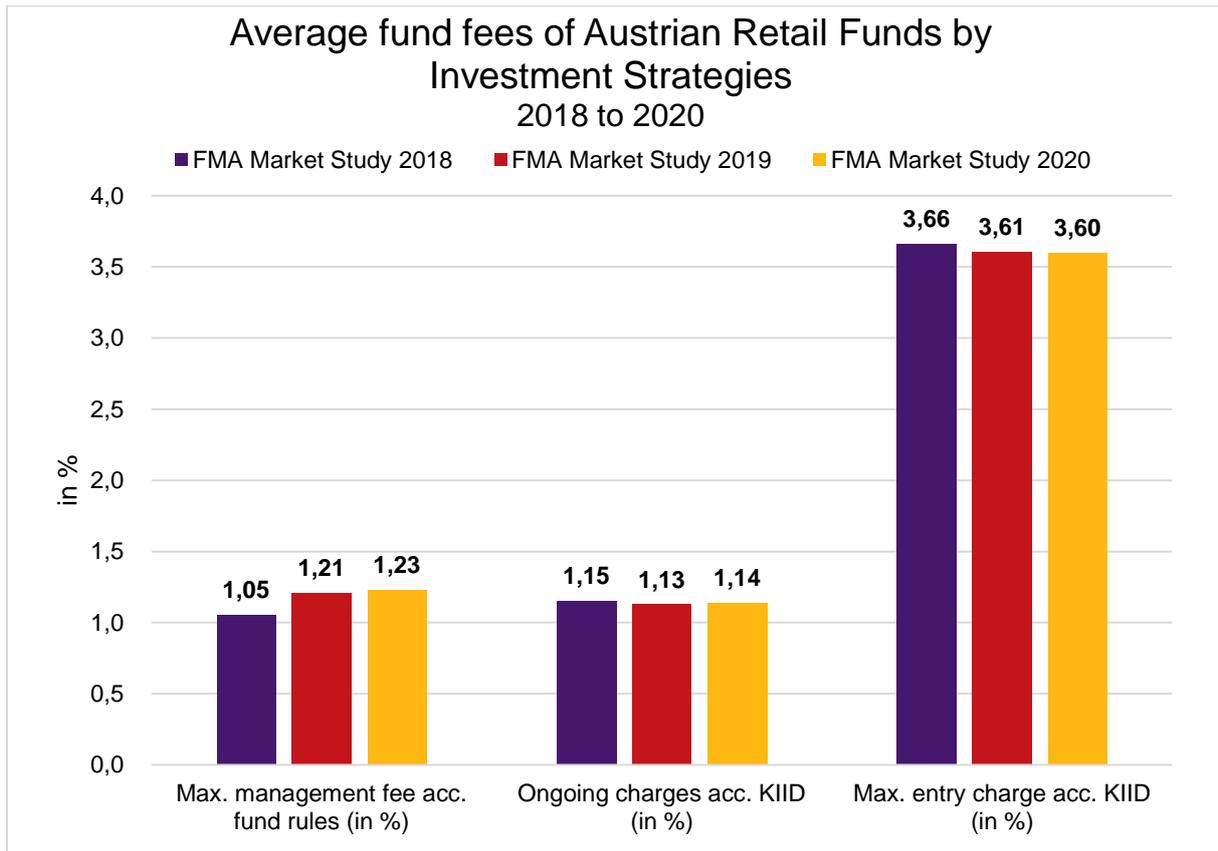
Austrian Retail Funds	Funds	NAV as of 31.12.2019	Max. management fee acc. to fund regulations (in %)	Ongoing charges acc. KIID (in %)	Max. entry charge acc. KIID (in %)
SRRI	Quantity	in EUR mn	Average	Average	Average
1	27	10,632	0.96	0.87	2.70
2	81	6,943	0.74	0.56	2.51
3	315	36,845	1.09	0.87	3.43
4	245	20,453	1.37	1.33	3.64
5	268	17,235	1.53	1.59	4.23
6	87	8,648	1.60	1.66	4.88
7	12	688	1.69	1.77	4.33
Total	1,035	101,444	1.23	1.14	3.60



2.3. ANNUAL FEE COMPARISON

Since FMA Market Study on Fund Fees for Austrian Retail Funds have been published since 2018, the aggregated fees in the Austrian fund market may be examined and compared on a year-on-year basis for potential changes. There have only been marginal changes across the three years available for comparison, with no discernible significant trends observable among 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 net asset value 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. RISK AND REWARD DISCLOSURE 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, 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). The performance is calculated by the Oesterreichische Kontrollbank AG (OeKB) on a consistent basis for Austrian funds using the NAV value of a fund provided by the investment fund management companies.⁶ The development of the NAV must also be

⁶ 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.oekb.at/dam/jcr:0a44f765-cf16-42a7-b601-43ce13afaab6/OeKB-Kennzahlenberechnung-Investmentfonds-2007-01.pdf>

published in the fund's annual report; detailed breakdowns of assets are contained in both the annual reports and the half-yearly reports of the funds.

The KIID must also present the fund's risk profile in addition to disclosure about the fund's historic performance. This also contains an explanation of the potential risks as well as disclosing the SRRI as a fund's risk category. The SRRI is based on the historic volatility of a fund and stated 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 how proceeds are used, the currency in which the unit is denominated as well as the fund fees.

4.1. MAXIMUM ENTRY AND EXIT CHARGES IN % OF 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 IN % OF 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 actual costs of the fund during a year as a percentage of the NAV are expressed in the KIID as the ongoing charges; 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 advisers, 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. In the case of funds of funds, the ongoing charges for the sub-funds that are invested in must also be taken into account in the ongoing charges. 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 benchmark⁷ 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.

⁷ 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.