A Review of UK Fund Assessment of Value Reports (2019-20)

January 2021

CFA Society United Kingdom

www.cfauk.org

Contents

CFA UK is grateful to the following members of the CFA UK Assessment of Value Statement Working Group for their input into this paper: Joe Steidl, CFA (Chair), Wolfgang Bauer, CFA, Andrew Burton, Siqi Ding, CFA, Jonathan Francis, CFA, Oscar Hjalmas, MSc, and Natalie Gregoire-Skeete, CFA. Views expressed are those of CFA UK and not necessarily those of the working group. The working group members acted in a personal capacity.

Executive Summary

With the publication of PS18/08 in February 2018, the FCA tasked UK fund boards with producing an Assessment of Value ("AoV") statement for each of their funds.

CFA UK published a suggested framework in November 2018 by which fund managers could assess the value their funds provide investors, organising the value elements under three core pillars of Costs, Performance and Service.

This report reflects the key findings of a follow-on CFA UK working group after having reviewed the AoV reports published by a target list of 145 UK investment firms accounting for £1.3 trillion. The working group used and adapted the previous working group's Value for Money framework to score each report. They tried to view each report through the eyes of the retail fund investor.

The working group found the best reports provided plenty of comparable data in an attractive format using tables, charts and graphs or even short video content to reduce the volume of text. However, many reports were characterised by vague language of no appeal to the average retail investor, particularly those produced earlier in the year.

The group were only able to locate 75% of the reports despite multiple efforts by phone and email to the firms in question and/or their Authorised Corporate Director ("ACD"). The best firms published their report clearly on their website and this was easily located via an internet search.

The key areas of differentiation which raised the best reports above the mean score in each of the FCA's seven categories were:

- Quality of Service: quantification as well as description of service quality; identification of development areas for the future; use of independent firms and customer surveys
- Net Performance: statement of the fund objective and quantified related performance as well as a peer fund group and/or benchmark over the recommended holding period; mention of risk; explanation of why performance was better or worse than target
- Economies of Scale: for small funds, an indication of the applicable thresholds when savings – both Authorised Fund Manager (AFM) and administrative - would be passed on to investors; for large funds, quantification of what savings had been passed on already and what further future savings might accrue
- AFM Fund Costs: a clear tabulated breakdown of the key components of the Ongoing Charges Figure (OCF), and a brief description of the core components; commentary on the inclusion (or not) of research and transaction costs
- Comparable Market Rates: transparent, quantifiable, benchmarking to a relevant peer group ideally performed by an independent firm
- Share Classes: a tabulated description of each of the available share classes and, at the fund level, the simple number of what the fee is for each share class
- Comparable Services: a succinct description of how the firm had assessed this and any actions taken as a result

The median percentile score for the report universe was 50%; scores ranged from 4% to 90%. The 9 template reports produced by the ACDs instead of the fund managers scored 35% on average. The group noted that most reports produced by ACDs were also not available on the fund manager's own website.

The best mean category scores were for Accessibility & General Presentation (57%) and Net Performance (53%); the worst for Quality of Service (33%) and for AFM Fund Costs (40%). Marks in the latter category suffered heavily due to 42% of reports not stating (as a number) what the OCF of each fund was.

Whilst not strictly part of the FCA criteria, the CFA UK working group also gave additional marks to those reports that both provided an assessment of liquidity and a clear statement of whether, and the degree to which, ESG factors helped determine the fund's strategy. Some funds covered these under Quality of Service, Performance or under more general firm-level disclosures at the front-end of their report. Likewise, firms gained marks for identifying areas for improvement in any category and specifying a remedy and/or a timeline.

Recommendations

Recommendations for AFMs, as report publishers

General Presentation:

- For reports created by the ACD, it would be desirable to have the reports published on the AFMs' website as well, as they are intended for the retail investor
- Consider whether a retail investor would be able to find the reports via a "Google" search
- Use clear user-friendly language
- Where possible break up text with tables, charts and appropriate diagrams to improve readability

Quality of Service:

- Independent assessment and /or customer surveys to be used where appropriate, particularly for AFMs with a direct relationship to the end investor and /or their representatives

Net Performance:

- At a minimum, disclose Investment Objectives and the appropriate investment time horizon
- Quantify over- and under-performance with brief commentary matching time horizon
- Include commentary on risk (such as drawdowns or graphs of historical volatility) into this section

AFM Fund Costs:

- Disclose OCF and a breakdown of its material constituents, explaining definitions such as OCF and AMC as retail investors may not be familiar with these terms
- A particularly good report expressed total fees paid as a percentage of total returns over both a 5- and 10-year period (i.e. the 'money' for the 'value')

Economies of Scale:

- Improve the explanation of how Economies of Scale should be interpreted and provide more quantified guidance as to how this will translate into savings for retail investors, in both the manager fee as well as the administration costs

Comparable Market Rates:

- Use of an independent peer group category or benchmark at a minimum
- Provide quantitative comparison data to improve the usefulness of this section for investors

Share Classes:

- For those funds with multiple share classes, include an explanation of each share class and state the fee for each

Recommendations for the FCA

- Consider producing more prescriptive rules based on observed best practice that will lead to a standardisation of reports enabling comparability
- Under the AFM Fund Costs criterion more guidance could be provided of what minimum requirements are required of AFMs
- Incorporate liquidity into one of the existing criteria or create as its own section
- Retail investors are now presented with a number of documents (KIID, Prospectus, Fund Factsheet, etc.) that could be overwhelming. Should there be an initiative to harmonise the number of reports AFMs are required to produce?
- It would raise the profile and importance of AoV reports if it were stipulated that they should be made available on the AFM's website, alongside the KIID, Prospectus, Fund Factsheet, etc.
- Provide clearer guidance regarding how firms interpret "Quality of Service" and "Comparable Services"
- Determine whether ESG disclosure and considerations should form part of AoV reports

Introduction

Value for money has been a topical subject and a focal point of financial services regulators worldwide. In the UK, the FCA sought to address this after publishing its Asset Management study in 2016, which concluded that value for money was a key concern, driven in part by weak price competition[1]. The effect on investors from poor price competition is higher fees, which result in lower savings over the long term. Having consulted further on the subject, the FCA published PS18/08[2] in February 2018 and introduced new rules to ensure AFMs act in the best interest of their investors.

The new regulation requires all AFMs to produce an AoV report within four months of the annual accounts end-date[3]. The FCA set out its requirements of funds in respect of the information they should provide for each of the seven components of value for money in a new rule COBS 6.6.21 published in Appendix 1 (p54) of PS18/08.

The intended indistinctness of the rules has given AFMs the flexibility to be creative in creating their first report and as a consequence the range of content, format and design saw a wide variation from one AFM to another.

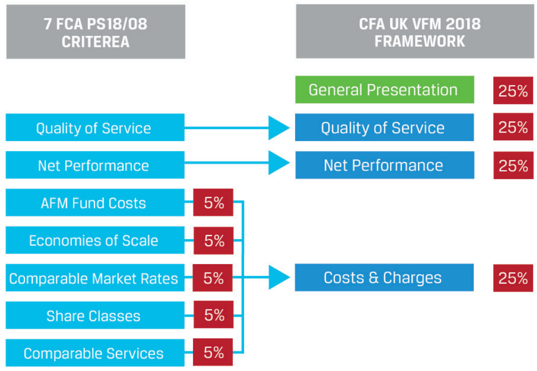
As an independent organisation integral to the UK investment industry, CFA UK has opted to be active in the Value for Money discussion:

- In 2018, a different working group examined the concept of Value for Money to determine a broad and consistent framework that could be used by industry participants to assess value for money[4]. The paper identified three important 'pillars' being 1) Costs & Charges, 2) Output: Risk and Net Return and 3) Service and Quality.

- The aim of this follow-on working group has been to (i) establish a framework for evaluating the AoV Reports and (ii) apply this to as many varied published reports as possible. Whilst the group members were all finance professionals employed at fund managers, fund selectors, investment banks and accountancy firms, they all invest in funds as individuals in their own right and tried to adopt that perspective (of the retail fund investor) when conducting this exercise. By acting as an agent for the retail investor and considering their perspective in this exercise, the group has sought to gather feedback for firms in a constructive way to help AFMs improve on future reports for the benefit of the retail investor.

In our framework, we mapped the seven FCA's criteria to CFA UK's "three pillars" as shown in the diagram below. We further added a fourth "General Presentation" category to capture each report's ability to explain the fund's value to a retail investor. We awarded equal marks to these four areas as shown in Exhibit 1:

EXHIBIT 1: MAPPING THE 7 FCA CRITERIA TO THE CFA VFM FRAMEWORK



[1] https://www.fca.org.uk/publications/market-studies/asset-management-market-stud

[2] https://www.fca.org.uk/publication/policy/ps18-08.pdf

[3] https://www.fefundinfo.com/en-gb/assessmentofvalue

[4] https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/3-research-and-position-papers/value-for-money--a-framework-for-assessment.pdf

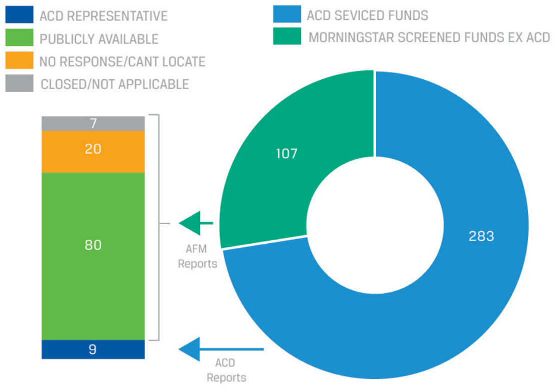
Group Methodology

Step 1: Defining our universe: To evaluate the AoV reports in an objective manner the group first needed to determine the universe of available funds. We pulled all the UK listed funds from the Morningstar database, which represents c. £1.3trillion in AuM across 145 firms. These firms consist of the pure manufacturers, platforms with their own funds and investment fund services firms.

Having split the list equally across the group, we then searched for the report from each of the 145 firms. Our approach was to first search the company website, failing that to do an internet search with "Assessment of Value" / "Value Assessment" / "Value Statement" etc. Then for those reports still unfound, we checked the fund documents to determine the Authorised Corporate Director (ACD), reached out directly to them via email and followed up with a phone call if necessary. In total, we were able to locate 109 (75%) reports out of our 145 Morningstar funds list.

Many AFMs do not act as their own ACD and as such outsource the production of the AoV report to these third-party investment fund services firms[5] , which used the same template for all the funds they administered. As our intention was to evaluate the effectiveness of different AoV report formats, we decided to score only one report from each of these firms as a representation. For completeness, there are 283 funds administered by the nine investment services firms we identified whilst only 28 of them were on our Morningstar list. Exhibit 2 below summarises our universe:

EXHIBIT 2: CFA UK'S AoV REPORT UNIVERSE



Our final list of report formats therefore came to 89 (80 public and 9 ACD representative reports). We conclude this provides a broad universe of unique reports with a wide variation of report styles and templates to evaluate.

Step 2: Evaluating the AoV reports: The second step in our methodology was to agree an evaluation framework to "mark" each of the reports in an objective manner. To avoid groupthink and harness the benefits of cognitive diversity, each group member was tasked to come up with a reporting framework and test it on a few random reports. Collectively we then spent a considerable amount of time discussing each of the categories to determine an agreed set of 'scoring' criteria for each category and we refined our framework and scoring system over several iterations. Where possible we opted for binary "Yes" / "No" framed questions to avoid subjectivity as much as possible. In only 3 cases, we used a scoring range (for instance 0-4) where binary answers were not suitable. To be able to aggregate overall scores for each report or aggregate across reports in each section, each binary questioned marked "Yes" was converted to a score of "1", which resulted in all questions having quantitative answers. As an example, the Net Performance section had six binary "Yes/No" questions, resulting in a maximum score of 6 for each report.

Each group member marked between 10-25 reports using the framework. To cross-check for outliers, we looked for marking bias within sub-sections across the markers. At least two reports for each marker were selected for cross-checking by another member of the group. Discrepancies were debated and amendments were made across all reports where necessary.

In general, the group was impressed by some of the creative thinking that was put into the design of these AoV reports. The FCA's widely-framed guidance meant some firms had gone the extra mile to make these digestible for a retail audience.

The following sections go into detail for each of our four categories – General Presentation; Quality of Service; Net Performance; Costs & Charges - to provide useful insights on what the group felt worked well and where improvements could be made for future reports.

[5] We analysed reports from DMS, Equity Trustees, Fundrock, IFSL, Link, Maitland, Smith & Williamson, THESIS and Valu-trac

General Presentation

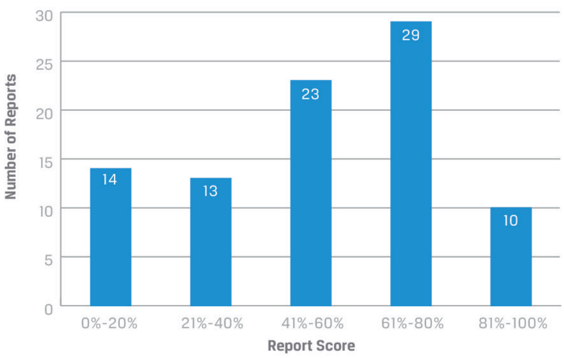
In addition to assessing the content of AoV reports against the FCA's seven criteria, we also evaluated them against several 'general presentation' criteria. Whilst not being FCA prescribed criteria, we concluded that these softer topics were important areas to cover to capture each report's retail appeal.

The general presentation criteria that all reports were assessed against were:

- Accessibility. Given the retail investor audience, we expected the AoV reports to be easily available to the public. Hence, we assessed the location and speed of access under two criteria:
    - Was the report accessible directly from the Fund manager's website? The location we believe most reasonable for it to be located for anyone looking for it
    - Ease of finding the report. Could the report be found in less than two minutes? Either through a search engine or on the fund manager's website
- Authority of report. This was judged by inclusion of at least an executive statement and preferably a sign off by either the named CEO of the asset manager or fund board chair
- Inclusion of an overview of fund range (if applicable) and summary of actions. Something we agreed made the reports easier to digest
- Clarity in respect to the firms approach to environmental, social and governance (ESG) factors. Without going into detail, were ESG factors included or not?
- Overall quality of the report for a retail investor audience. The most subjective criteria that we assessed against, which we discuss in more detail below

Exhibit 3 shows the distribution of aggregate scores was relatively wide showing the range of quality we found while reviewing the reports.

EXHIBIT 3: DISTRIBUTION OF 'GENERAL PRESENTATION' SCORES

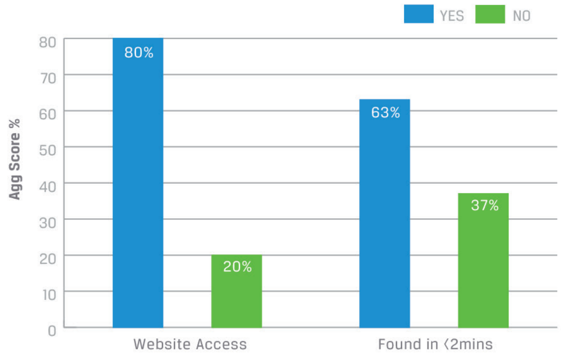


Accessibility Findings

The results from our two accessibility criteria were mixed. As shown in Exhibit 4 below, 37% of the 75% of reports we found could not be located within two minutes; 20% could not be located on the fund manager's website.

Given the intended retail audience, and purpose of the reports, we expected better accessibility. The best examples were found quickly using search engines which either linked directly through to the report or to a landing page on the fund managers website where it was located. The worst were only found after considerable effort on administrator websites or bundled into fund annual reports (in some cases even un-indexed buried in the middle or at the back on the last page of annual reports).

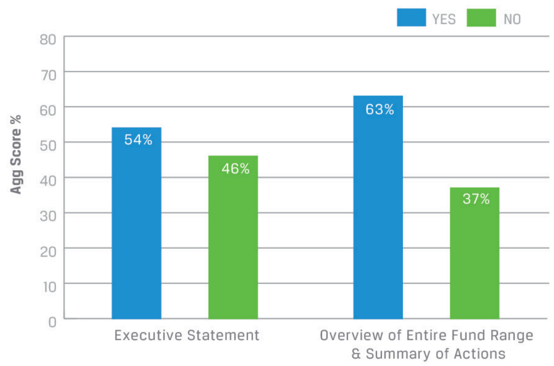
EXHIBIT 4: EASE OF REPORT ACCESS



Report Introduction and Overview Findings

We found that the quality of report introductions was often a sign of how good the overall document was. We saw the inclusion of an executive statement, which introduced the report, its aims and findings as a positive indication of authority, integrity and intention. As Exhibit 5 shows below, approximately half of reports reviewed included these statements. While around 60% included a summary of results for the entire fund range (where there was more than one fund), and a summary of actions being taken.

EXHIBIT 5: REPORT INTRODUCTIONS & SUMMARIES



Overall Quality of the Report for a Retail Investor Audience

This was the most subjective criteria that was scored against, although we felt an important exception to make given the range of attempts that had been made. While a qualitative assessment, the group looked at aspects such as simplicity of presentation, navigation, use of clear tables/charts and intuitive scoring systems for presenting data.

The highest scoring reports were found in prime positions on company websites, with a dedicated landing page. Introductions were comprehensive but succinct and individual pages were provided for each fund through easy navigation. Transparency was high, data was presented clearly and scores summarised proficiently (e.g. using traffic lights for each criteria).

For this subjective criteria within the 'General Presentation' category the average score was 56% for all reports, so above average overall. The average score for the small number of ACDs representing a large number of funds was lower at 44%.

ESG Factors

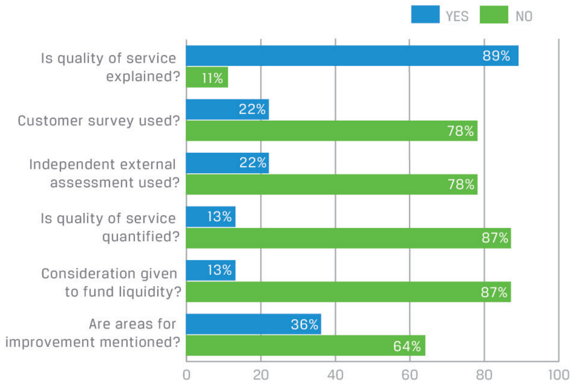
Here we looked to assess how, if at all, fund providers had reported on value in relation to ESG factors. In some cases, this was addressed within introductions, at the firm level, while others looked to address the topic as part of the 'quality of service' criteria. However, 75% of reports made no reference to ESG or how/if value was being provided. Given the increasing number of regulations requiring ESG disclosure, the group felt this could be a topic better addressed within COBS 6.6.21.

Quality of Service

As one of the key criteria under COBS 6.6.21, Quality of Service is defined as simply: "The range and quality of services provided to unitholders."

We looked at the explanation and method that was taken to assess quality of service as well as transparency and commitment to improvements using the six criteria shown in Exhibit 6 below:

EXHIBIT 6: QUALITY OF SERVICE CRITERIA



The large majority of reports provided an explanation to quality of service and how it had been assessed, however, we note that many of these were vague and offered little evidence.

When it came to content and methods of assessment our key observations were:

- There was little consistency on what services were being assessed. In other words ACDs tended to focus largely on administrative services, whereas some fund managers only focused on performance
- Only approximately 20% of reports used customer surveys or independent external assessments and less provided transparency in the form of quantification of results
- Several reports simply noted the level of formal complaints received as their method of assessment
- Many assessments had little clear substance and simply used 'boiler-plate' language to deal with this section
- Minimal attention was given to fund liquidity despite this being an important aspect of service not captured otherwise within the separate Costs & Charges and Net Performance section

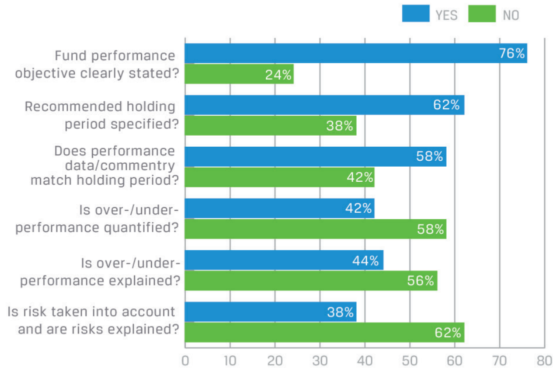
It was clear that Quality of Service had been a difficult topic to address and there were wide ranging interpretations around what services should be assessed and the method of doing so. With little consensus on this topic, we believe the industry would benefit from more specific guidance from regulators.

Net Performance

Under COBS 6.6.21, Net Performance is defined as: "The performance of the scheme, after deduction of all payments out of scheme property as set out in the prospectus. Performance should be considered over an appropriate timescale having regard to the scheme's investment objectives, policy and strategy."

When the group reviewed the AoV reports, this formed the basis of the Performance Reporting section, and the data collected by the group. As part of the scoring framework, the following criteria were assessed as shown in Exhibit 7 below:

EXHIBIT 7: NET PERFORMANCE CRITERIA



Close to a quarter of AoV reports did not clearly outline their Investment Objectives, one of the few specific requirements under COBS 6.6.21. Also stipulated by the FCA was an appropriate timescale, however, almost 40% of the reports assessed did not specify a recommended holding period. By definition "value" is relative. As such, one of the most transparent methods of assessing value is to compare an investment against its peer group or benchmark. Our sample of AoV reports scored relatively well in this category, with almost 2/3 comparing their fund to an index.

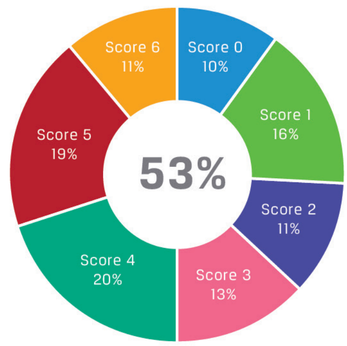
This section lent itself the most to the use of quantitative information in the way many firms already show performance data in their Factsheets. However, 58% of reports did not quantify their over- or under-performance. By not quantifying performance, we felt this section became relatively meaningless for retail investors – there is a noteworthy distinction between a 0.5% and a 10% relative over- or under-performance.

Only 38% of AoV reports included a mention of risk. This was not highlighted as a specific criterion by the FCA, which is a likely cause for its under-representation. However, as per the CFA UK Value for Money Framework, the group felt risk is important for relative evaluation. It may be that the publishers of the report perceived that risk was captured by default in including a benchmark or peer group. Another possible explanation could be that firms believed including risk in their Prospectus, KIIDs or Fund Factsheet was sufficient. We believe the AoV report to be a stand-alone document, and as such, proper mention should be made.

One report that was exemplary in the risk category, mentioned risk in its benchmark assessment, had a "Investment Risk & Controls" section and also noted this in their "Conclusion of our assessment of Quality of Service". We determined that this was sufficient for a retail client to understand and see a strong risk culture engrained in the company.

Net Performance is one of the key categories and of material importance to retail investors. Exhibit 8 below shows the distribution of the score (ranging from 0-6) for each AoV report:

EXHIBIT 8: DISTRIBUTION OF 'NET PERFORMANCE' SCORE



The overall average score was 53% across all of the AoV reports, which is a cause for concern and an area where improvement should be made. Scores were quite evenly distributed, with 63% receiving a score of 3 or higher. The biggest detractors from scores were (i) whether risk was explained in the report and if relative performance was (ii) included and (iii) quantified. Whilst this was the first AoV report, 11% scored full marks, which gave confidence to the group that average scores could be higher.

After observing many creative ways the Net Performance section of the AoV reports were designed and analysing the best scoring reports, we made the following observations as guidance notes for this section of reports going forward:

- It is extremely appealing to the reader's eye to find all the necessary information available on a dashboard of maximum one page per fund that covers the six criteria above, references peer group and, if applicable, benchmark relative data
- Lengthy text on performance is hard to consume and this section is better suited to well formatted tables and performance charts
- Given the importance of investment objectives this should be clearly and succinctly stated with the relevant time horizon or recommended holding period positioned as one of the first things a reader would see
- Quantifying performance relative to the time horizon was regarded as a must . In addition, it was helpful to see performance for as long as possible. The best scoring reports showed the same for peer group and benchmark (where applicable)
- Good practice around commentary on performance tends to be direct and to the point referencing both market conditions and relative to peers

- The group felt that a simple risk metric such as drawdowns (relative to peer and benchmark) should be mentioned, at the very least, to give a sense of the relative risk

- Including links to KIIDs or Fund Factsheets is another nice touch for the reader of the report

- If the conclusion highlighted that value was not realised for the investor, a summary of actions was well received

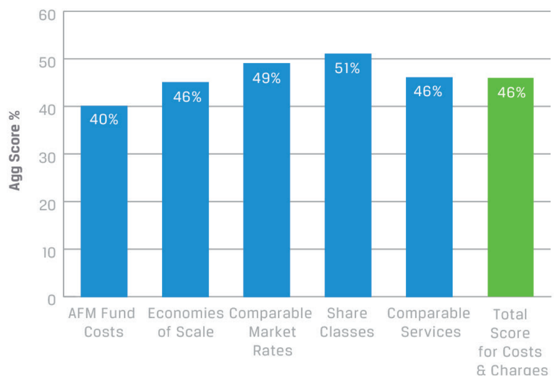
Some of the reports incorporated most of the above and did this well, in a tasteful layout. The working group cannot stress enough that charts and graphs should be best practice as we believe that they are simpler to understand and provide real value to the retail investor.

Costs & Charges

The costs and charges incurred by clients in financial products form a fundamental part of an AoV report. Under COBS 6.6.21, the FCA stipulated five specific categories [7] which we have grouped together under this Costs & Charges section.

Results from our assessment suggest clear scope for improvement. On average, the 89 sampled AFMs scored around or below 50% in all categories with AFM Fund Costs scoring the lowest (40%), as per Exhibit 9 below. We examined a total of 15 criteria across the five Cost & Charges categories; we highlight the best practices, as well as several interesting observations.

EXHIBIT 9: OVERVIEW OF COSTS & CHARGES SCORE

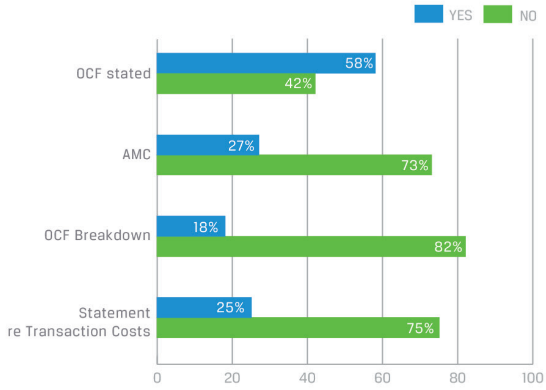


a. AFM Fund Costs:

"In relation to each charge, the cost of providing the service to which the charge relates, and when money is paid directly to associates or external parties, the cost is the amount paid to that person."

The group believes transparency around AFM Fund Cost to be crucial to solve poor price competition. Exhibit 10 below illustrates the key criteria used in our evaluation:

EXHIBIT 10: AFM FUND COSTS CRITERIA



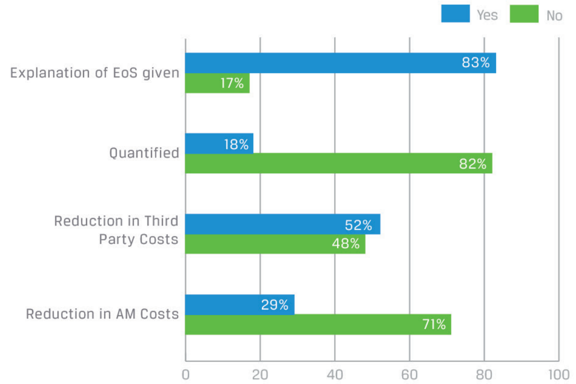
In our view, simply stating the OCF at the individual fund level was the most important criteria for retail investors' understanding. 42% of reports failed to do this. Ideally, we looked for a breakdown of the key components of the OCF; some reports did a good job explaining the difference between OCF and a manager's fee (AMC), but only 27% disclosed the AMC and even less (18%) broke down the OCF costs. A handful of reports scored very well in this section and had neat tables showing all the relevant information including transaction costs (usually excluded from OCF).

b. Economies of Scale ("EoS"):

"Whether the AFM is able to achieve savings and benefits from economies of scale, relating to the direct and indirect costs of managing the scheme property and taking into account the value of the scheme property and whether it has grown or contracted in size as a result of the sale and redemption of units."

Exhibit 11 illustrates our key criteria for EoS:

EXHIBIT 11: ECONOMIES OF SCALE CRITERIA



Roughly five-out-of-six firms gave reasonable explanations of EoS, but only one-in-six quantified the evidence. Explanations could be both retrospective or forward-looking depending on the maturity of the fund in question. Larger funds scored points where they quantified a reduction in fees or savings; smaller funds scored points for specifying AUM thresholds and future cost reduction tiers. Best practice across reports quantified the scale of historical/future possible cost reductions in terms of both third-party and AMC costs, as a result of EoS. Many AFM reports ignored the AMC and only commented on third-party services.

[7] Definitions of the five categories in this section are quoted from the FCA COBS 6.6.21.

c. Comparable Market Rates::

"In relation to each service, the market rate for any comparable service provided: (a) by the AFM; or (b) to the AFM or on its behalf, including by a person to which any aspect of the scheme's management has been delegated."

For this section, the group scored reports highly where fund charges were assessed by an independent third-party [8] or where recognised industry categories such as Investment Association (IA) sectors or Morningstar were used. Crucially for this section to be of value, quantifying the comparable charges was welcomed. While 56% of reports scored points for using an independent third-party or industry recognised comparable, only 34% gave adequate transparency and quantification in their disclosure.

d. Share Classes:

"Whether it is appropriate for unitholders to hold units in classes subject to higher charges than those applying to other classes of the same scheme with substantially similar rights."

The transparency of reporting in this criterion varied. Reports that scored well listed all the available share classes, gave succinct explanations for the different classes and stated the fee for each share-class for each fund. Although 37% of reports scored 0% for this section, a good number of reports (34%) met all these criteria indicating the achievability of providing the necessary information for retail investors. Funds with only one share class clearly found it easy to score full marks – perhaps an unfair advantage.

e. Comparable Services:

"In relation to each separate charge, the AFM's charges and those of its associates for comparable services provided to clients, including for institutional mandates of a comparable size and having similar investment objectives and policies."

The group observed that this section of the AoV reports was the least interesting for retail readers. Many firms found it difficult to address directly: a few reports chose not to mention it, some stated it had no relevance to their fund and many commentaries were vague. Given the overall weakness in the responses, our evaluation for this section marked reports on the quality of their explanation.

[8] Firms noted included Broadridge, FITZ, Grant Thornton, Lipper, Square Mile, Which?

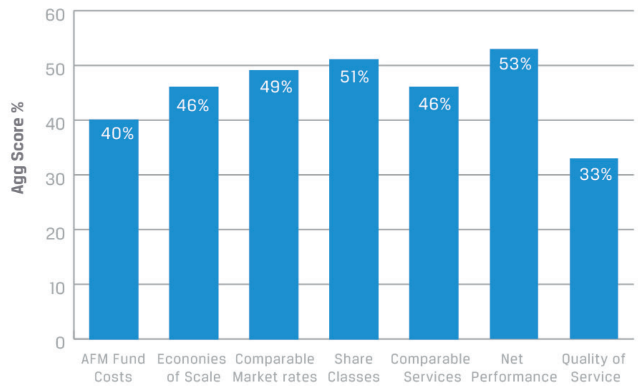
Conclusions

A good report provides transparency and enables comparability. Whilst the lack of prescription in PS18/08 has led to some innovative and effective responses from the industry, the group would now recommend the adoption of a more consistent and standardised approach. This would give retail investors the ability to more easily compare their relevant investable fund universe.

We found that reports in aggregate scored lowest in the criteria where the assessment criteria sought quantitative and evidence-based data as well as description. A lack of quantitative data reduced transparency and the ability to make comparisons. However, it is worth noting it is equally important for reports to be accessible and user-friendly for retail investors.

As can be seen in Exhibit 12, the Net Performance section scored the highest overall (53%). However, this section could have scored considerably higher given the data availability, the pre-existing KIID and Fund Factsheet requirements as well as the slightly more directed guidance provided by the FCA. It would be appropriate to see more information around risk taken into consideration and one hopes this receives greater attention in future reports.

EXHIBIT 12: 7 FCA PS18/08 CRITERIA



Quality of Services was the weakest of the FCA's seven criteria, with this particular section perhaps requiring more firm resources and the ability to have direct dialogue with retail investors to score highly. Smaller firms may not have the bandwidth, direct customer contact or external resource to utilise customer surveys or independent sources. However, to provide an unbiased perception of quality of service, we felt these independent firms provided the most reliable data within the reports. Reports from third-party investment services firms, such as ACDs, often interpreted services to clients with a slightly different focus to AFMs themselves.

AFM Fund Costs was a key criterion which scored the lowest (40%) out of the five criteria in the Cost & Charges section, largely due to the lack of quantifiable data provided. Economies of Scale was not straight-forward as this depended on the maturity of the fund in question. However, whether a large or small fund, an AFM could still provide quantitative evidence of economies of scale or state whether and when future economies of scale might be achieved and passed to investors.

Liquidity was a topic the group felt was not emphasised enough in both the requirements and in the AoV reports. There have been recent instances in the UK where fund liquidity has led to substantial investor losses or potential losses and we believe this should form an integral part of any value assessment, perhaps as a separate, distinct criteria along with risk.

The median and mean scores across all the reports were 50% and 47% respectively; this hides the extremes in scores awarded which ranged from 4% up to 90%. The average AFM report scored 49%, whilst the average report produced by an ACD scored 35%, with 'General Presentation' and 'Quality of Service' being the two categories where the AFM in-house reports scored relatively higher.

EXHIBIT 13: AUM VS OVERALL SCORE

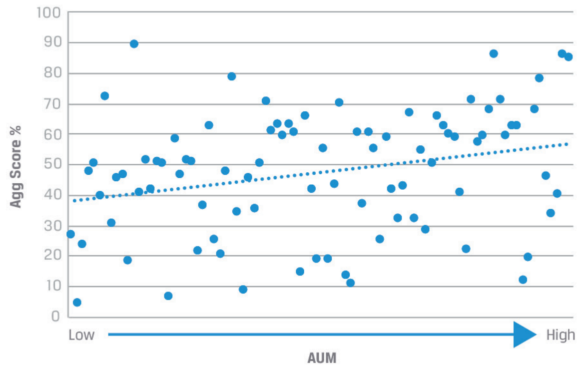
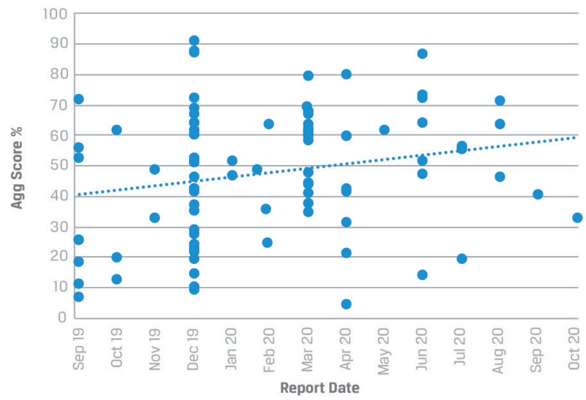


EXHIBIT 14: REPORT DATE VS OVERALL SCORE



Finally, some interesting observations were discovered when examining the results in aggregate. The trend in Exhibit 13 shows how the report scores have a positive relationship with the level of AUM: the larger the firm's AUM, the higher their report score.

In terms of report timing, more recent reports showed a higher average score than earlier reports as illustrated in Exhibit 14. This would infer that as more AoV reports are completed, so report publishers are learning from what others in the industry are doing. We hope our report will also help further progress this trend.

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